

IFC Advisory Services in Europe and Central Asia
IFC's Financial Markets Crisis Response Program
in Eastern Europe and Central Asia

Distressed Asset Transfer Handbook:

General Guidelines for the Purchase and
Sale of Distressed Assets in the Financial Sector

In partnership with the Development Bank of Austria (OeEB)



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Glossary of terms

AMC	Asset management company
ACBU	Association of collection business in Ukraine
CBR	Central Bank of Russia
CEE	Central and Eastern Europe
CIF	Corporate investment fund
CIS	Commonwealth of Independent States
CIT	Corporate income tax
Deloitte	Deloitte Touche Tohmatsu Limited
DPD	Days past due
DTT	Double Tax Treaty
EUR	Euro
FinCo	Financial company (SPV that is licensed to provide financial services)
FC	Foreign currency (or currencies)
FX	Foreign exchange
GAAP	Generally Accepted Accounting Principles
IAS	International Accounting Standards
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
LLP	Loan loss provision
MAR	Minimum acceptable rate
MBS	Mortgage-backed security
NBU	National Bank of Ukraine
NDF	Non-deliverable forward
NPL	Non-performing loan
NPV	Net present value
NRV	Net realizable value
POS	Point-of-sale

PV	Present value
SIC	Standing Interpretation Committee
SPA	Sale and purchase agreement between a bank and an SPV for the sale of loan claims
SPV	Special purpose vehicle
UAS	Ukrainian Accounting Standard
UK	United Kingdom
USD, \$	U.S. dollar
VAT	Value added tax
VIF	Venture investment fund
WHT	Withholding tax
SPA	Sale and purchase agreement between a bank and an SPV for the sale of loan claims
SPV	Special purpose vehicle
UK	United Kingdom
UIF	Unit investment fund
USD, \$	U.S. dollar
VAT	Value added tax
WHT	Withholding tax
UAS	Ukrainian Accounting Standards
UIF	Unit investment fund
VAT	Value added tax
VIF	Venture fund
WHT	Withholding tax

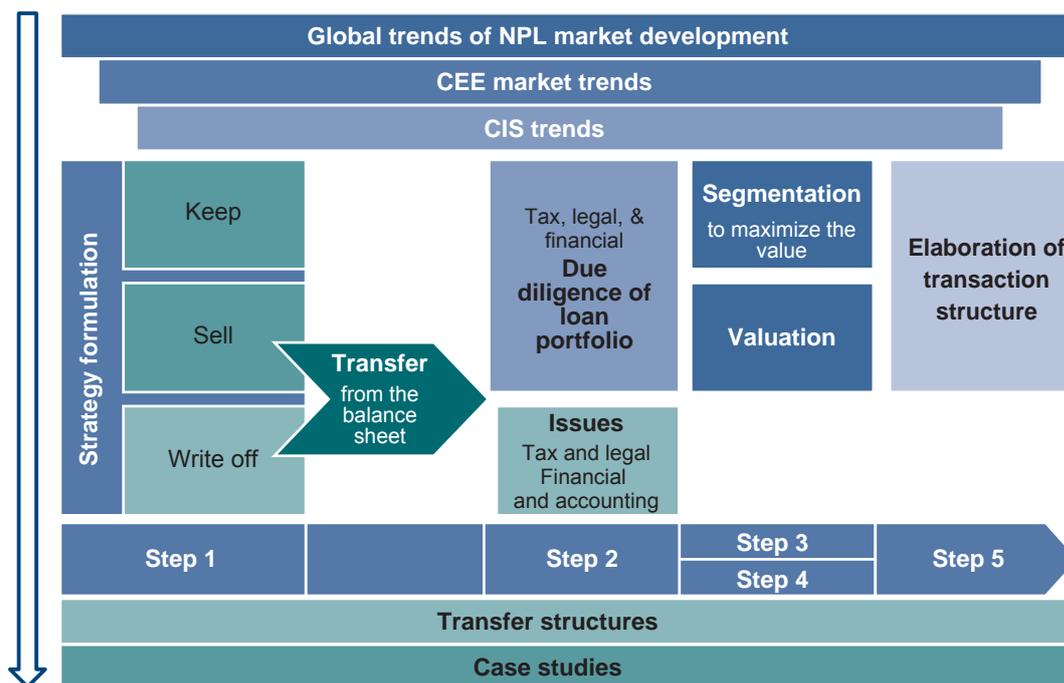
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Guide to using this handbook

This handbook has been written to brief on the latest global trends at markets of non-performing loans (NPLs) and their reflection onto CIS markets (Part I), address issues that may be faced by a lending institution as well as potential investors on NPLs (Part II), provide an insight to local specifics of application common to NPL transfer structures (Part III) and study executed transactions (Part IV).

We would like to draw your attention to Part II which provides guidance on: (a) key aspects in loan portfolio review and formulating of general strategy in respect for NPLs (Step 1 and 2); (b) key considerations regarding loan portfolio segmentation and valuation methodology (Step 3 and 4); (c) options available to management for transaction structures or sales of NPL portfolios (Step 5).



Introduction

In the years 2008 to 2011, loan portfolio market activity in the world was subdued. This was mainly due to the turmoil in the financial sector during these years, as high levels of uncertainty and volatility offered extraordinary returns on comparatively safe investments, such as bank bonds and hybrid capital or even sovereign bonds.

However, ongoing turbulence in the world economy has fuelled the growth of global

secondary debt markets. Falling asset prices, constrained liquidity and pressure on bank balance sheets means that financial institutions are increasingly looking to trade distressed loans with well capitalized buyers rather than pursue more traditional workout strategies.

The market for distressed debt is complex but can provide great opportunities for those that understand it.

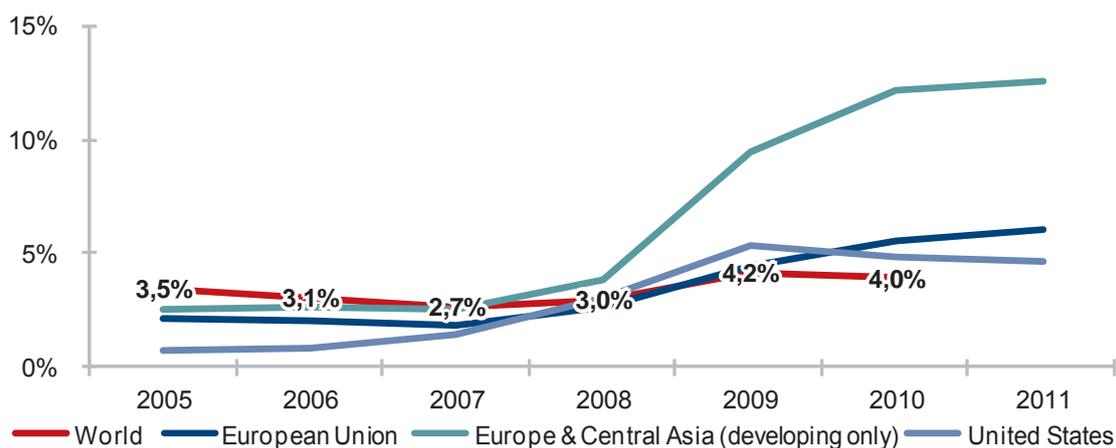
Part I. Current NPL market trends

Chapter 1.1. Global NPL market

The global financial and credit crisis and the failure or nationalization of large financial institutions, put pressure on banks to focus on core lending activities and exit non-core and non-performing businesses. Per World Bank, non-performing loans reached 12.6% of gross loan portfolio in developing European and Central Asia countries in 2011. NPLs have a dual effect on financial institutions, as there is no income from problematic loans and the capacity of further lending is reduced due to provisioning against NPLs.

There has been a growing trend, particularly among American and European banks, to separate their non-core and distressed assets into purpose-built business units, focused on asset wind-down and disposal. In most cases, this strategy has been applied to non-core assets, including both performing and non-performing, as well as markets and product lines that no longer align with the bank's long-term business strategies, are capital or risk-weighted asset intensive or mismatch the current funding profile of the owner.

Non-performing to gross loans trends



Eurozone banks are facing very difficult financing conditions. The average NPL rate in the region amounted to 6.1% in 2011. European banks had in excess of €1.7 trillion of non-core and non-performing assets on their balance sheets, according to a research report by

Deloitte¹. The report entitled, 'Deleveraging in the European Financial Sector,' assesses the key challenges being faced by European banks and the technical drivers behind asset deleveraging and divestment in key territories including the

¹ <http://www.deloitte.com/assets/Dcom-UnitedKingdom/Local%20Assets/Documents/Industries/Financial%20Services/uk-fs-deleveraging-in-the-european-financial-sector.pdf>

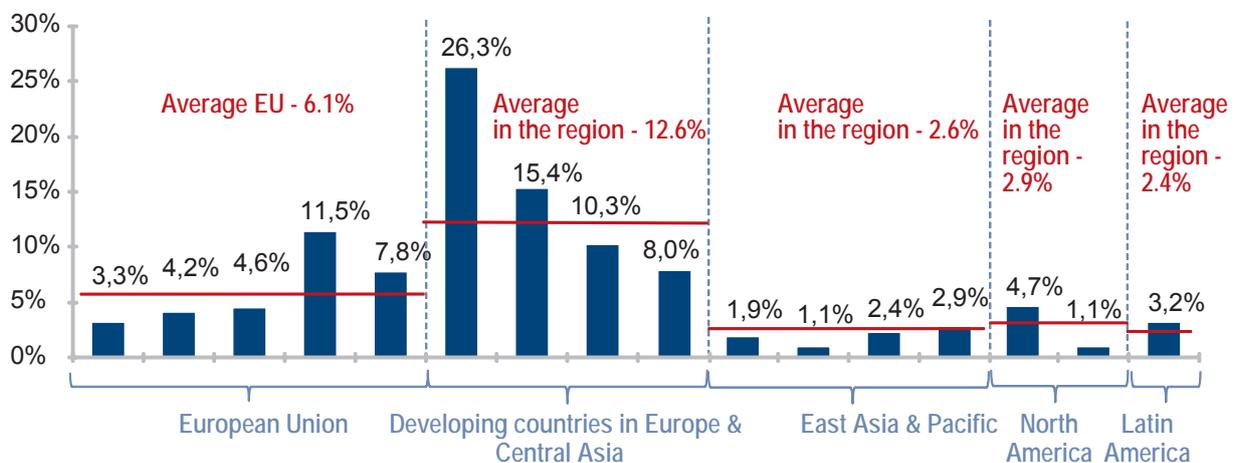
UK, Germany, Ireland, Spain and Italy.

Data from China's Banking Regulatory Commission showed that the non-performing loan ratio for the country's commercial banks stood at 0.9% or \$69.6bn as of 31 March 2012, down from 1% at the end of 2011. Per public sources, NPLs in Chinese commercial banks are expected to grow in 2012.

The US and Brazil continue to be very active debt sale markets in the Americas.

There are increasing signs of renewed activity in other countries across the Americas region, including Argentina, Chile, Colombia, Peru and Mexico. For the Mexican market, in particular, the semi-monopoly of the market by a handful of investors has often resulted in lower prices being offered to sellers. And while markets, such as those in Peru and Mexico, are attracting some regional investors, the potential flow of deals available overall remains uncertain.

NPLs to total gross loans in 2011



* Data for 2010

** The World Bank changed methodology of NPL rate calculation for some countries in FY12. Per previous methodology, data for FY11 were the following: Ukraine - 40%, the Russian Federation - 10%.

Source: World Bank, 17-Apr-2012

Other key trends

- In certain markets, a number of commercial banks are emerging with a mandate to expand their client base and market through portfolio acquisitions;
- The increased market participation of new debt-focused investors is continuing across all debt classes, bringing in investment banks, pension funds, real estate investors and sovereign wealth funds from around the world;
- Increasing stabilization in default rates has been reported by both consumer and corporate clients;
- Many delinquent corporate loans are being provisioned and losses updated to reflect a more positive economic environment, reducing book values and narrowing bid/ask spreads for defaulted loans;
- Vendors, purchasers, advisors and auditors are starting to overcome bid/ask challenges in light of the closing in 2009 and 2010 of several large structured and vendor-financed transactions;
- There is rising focus on the strategic value of platforms attached to portfolios – or on a stand-alone basis – as transaction activity increases and new market entrants shore up servicing options.

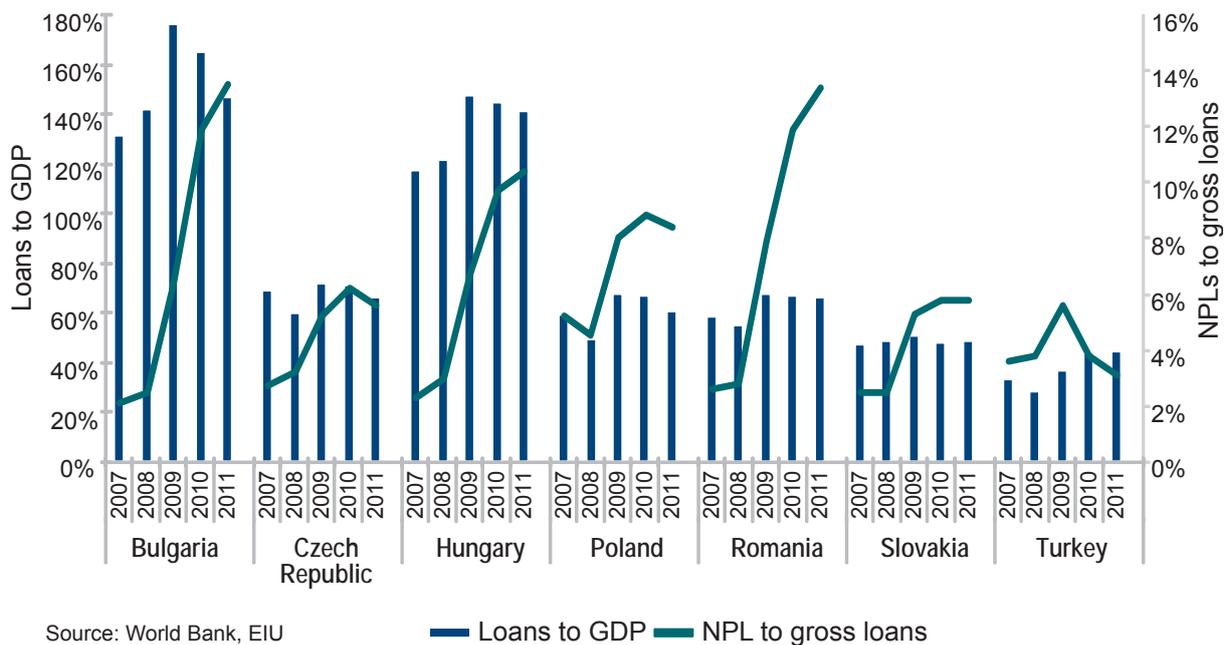
Chapter 1.2. Non-performing loans in Central and Eastern Europe

Boom and bust cycles caused high level of non-performing loans (NPLs) in various countries in Central and Eastern Europe (CEE). Economies and lending growth during 2003-08 were the reason of an unsustainable credit boom that ended with the global financial crisis of 2008/09. The deep recession, that followed all over the world brought many of the accumulated underlying problems to the fore, including poor quality of some loans on banks' books.

Moreover, data deficiencies and possible underreporting of bad loans in some countries might mean that the true NPL problem is even bigger than official statistics suggest.

Financial crisis effects spread over several years leading to a relatively slow recovery phase. From 2007 NPL ratios have more than doubled in almost all analysed countries with no effective countermovement visible.

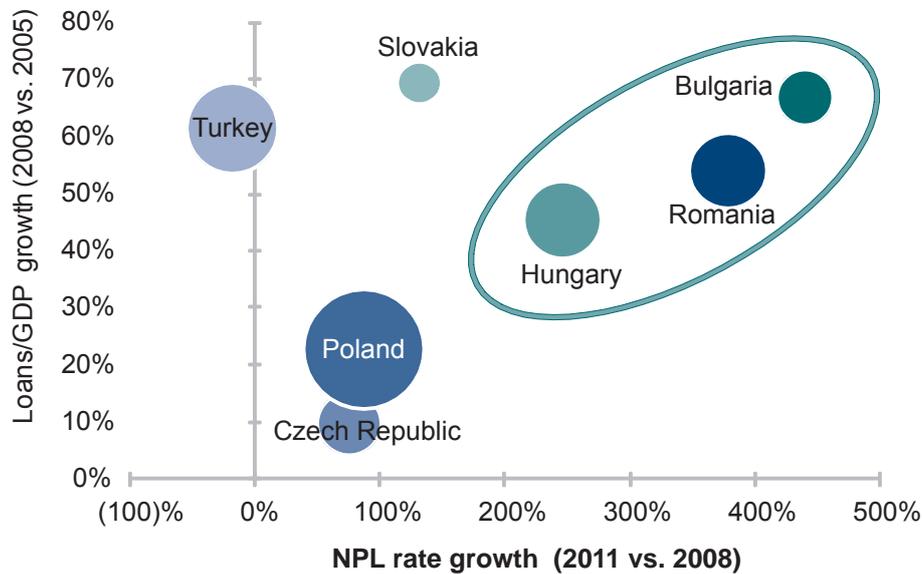
Total loans to GDP and NPL ratio in CEE (except CIS countries)



There is a clear relationship between a country's NPL growth and the respective loans to GDP growth. Indeed, countries with the highest

NPL rates grew the most (with the exception of Slovakia and Turkey).

Loans to GDP and NPL growth



*Bubble size reflects the NPL volume

Source: World Bank, EIU, Deloitte analysis

NPL ratios continue to increase in most CEE countries, where the economic recovery has been weak, and in Hungary, where in addition to subpar growth a large share of mortgages is denominated in strongly-appreciated Swiss francs. Elsewhere, NPL ratios seem to have peaked but any reduction tends to be small and is bound to face headwinds from the renewed slowdown of the global economy. This limited progress is despite considerable efforts by banks, most of which have set up internal dedicated workout units equipped with additional and more senior staff.

Banks are flexible in adjusting the payment terms of cooperative distressed borrowers,

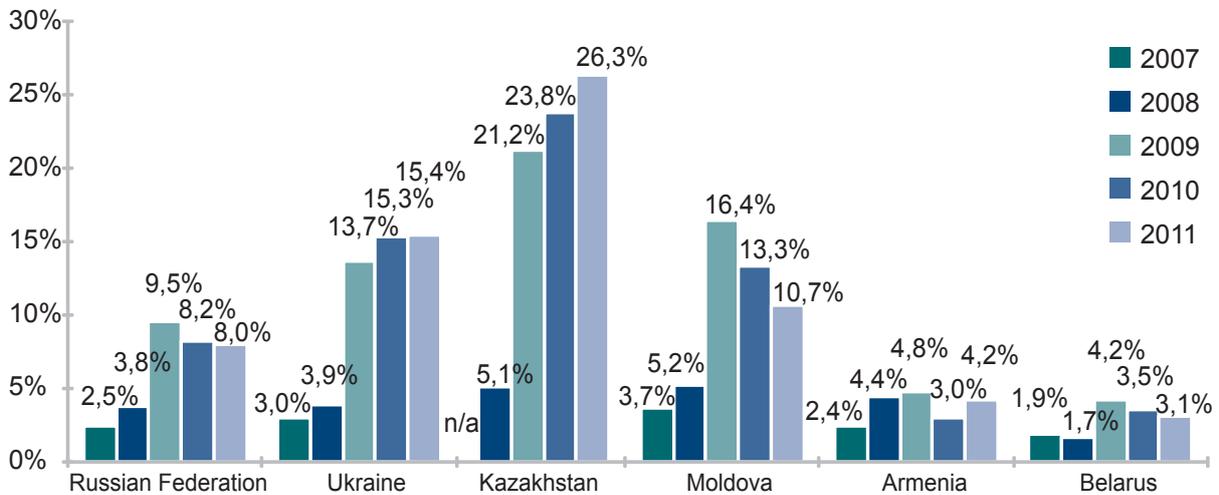
but generally avoid interest capitalization or refinancing. The sale of problem loan portfolios and outsourcing of collection remain relatively rare. A few governments, such as those of Latvia, Romania, Serbia, Moldova, Russia, Estonia, and Poland have also undertaken to overhaul their corporate or household insolvency regimes or encouraged out-of-court restructurings. Others have opted for more direct intervention in dealing with the NPL problem, although some schemes recently introduced (notably the early mortgage repayment scheme in Hungary) have imposed large losses on the banking system and are problematic.

Chapter 1.3. Challenging NPL market in the CIS region

Similar to CEE, the CIS region showed high growth rates before the crises 2008. From 2009 till 2010 the general trend show continued to seek speedy work-out of NPLs, with operational support from parent banks as necessary. In 2011

many banks ensured adequate provisioning, capitalization, and valuation of collateral to NPLs as well as (partially) write down of NPLs if their recovery is unlikely. The target for the nearest future is to recover loans with good collateral.

NPLs to gross loans in CIS region



Source: World Bank, 17-Apr-2012

NPL markets in Belarus and Azerbaijan are not widely developed due to government overregulation and non-transparency. Below we

provide insights on the largest NPL markets in the CIS region – Russian Federation, Ukraine and Kazakhstan.

Russian Federation

Due to the massive liquidity support by the Government, Russian banks have emerged fairly unscathed from the crisis and have actively competed for good quality corporate and retail loans despite the downturn.

Per CBR, the share of overdue loans had doubled by the end of 2009 (from 2.5% to 6.0%), reaching a peak of 6.5% in 1H10 from which it then began to gradually decrease, mainly due to new lending.

NPLs are heavily concentrated, and this is inherent in the Russian banking system:

- Top 30 Russian banks (ranked in terms of assets) accounted for c.85% of all corporate NPLs as of 31 December 2011;
- Dominant portion of loans are RUB-denominated. As a result, only 11% of non-performing loans were FX-denominated as of 31 December 2011;
- Moscow-based banks accounted for a large proportion of NPLs (c. 30%) as of 30 September 2011.

Overdue loans dynamics in Russian Federation



Source: Cenral Bank of Russian Federation

The NPL market in the Russian Federation is mainly composed of retail portfolio sales, sales of corporate NPLs are rare. Average price are range at 3-7% for consumer loans (largely c. 5%) and 1-2% for SME loans which are believed to be attractive for buyers.

In 2011 average DPD in portfolios sold grew up to 1260+ compared to 900+ in 2010 in Russian Federation. Now dominant portion of bad debts has completed court proceedings and has enforcement decisions. This may increase average prices up to 10% (Morgan&Stout estimate) for certain portfolios. Number of banks engaging 3rd party collection companies is growing as well. Last year 85% of TOP-50 Russian banks (which is c. 81% of Russian banking sector by assets) outsourced debt collection (vs. 54% in 2009).

One of the specific weaknesses of Russian NPL market is that Rospotrebnadzor (Federal service on customers' rights protection and human well-being surveillance in Russian Federation), considers claim assignments and collection activities as illegal actions. At the

same time, this risk could be covered by Federal Law On collection activities, which is under consideration of the Parliament.

According to the Resolution of the Plenum of the Supreme Court in Russian Federation #17 from 28 June 2012, the bank could transfer a loan to an individual only to a third party with a special license issued by CBR. However, the transfer can be done in case either a loan agreement contains special clause that allows such transfer (which is considered as consent of the borrower) or the transfer is allowed by the legislation. At the moment collection companies have any licences from the CBR and there is no legislation regarding its obtaining yet. As such, if the entire loan agreement does not contain the appropriate clause, to transfer retail loans to a collection company the bank will have to obtain the borrower's consent on that which is likely to complicate the process and to limit marketability of retail loans. The Resolution #17 has no impact on the loans that were transferred to the collection companies before 28 June 2012.

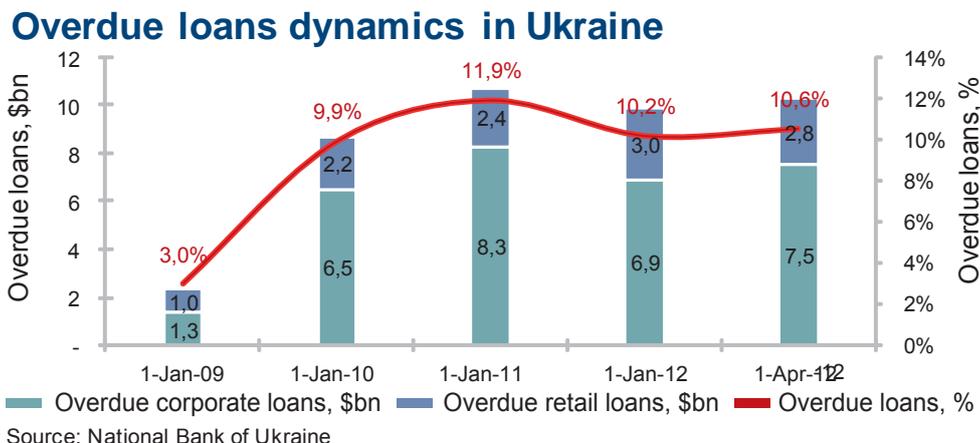
Ukraine

Ukraine is the second-largest country in Europe after Russia by territory and is seen as a key element in economic and political stability in the region. Prior to the global financial crisis, Ukraine had one of the highest global GDP growth rates, foreign direct investment and consumer spending levels. However, it has been one of the worst-affected economies by the global financial crisis, recording a 15.1% contraction in GDP to \$114bn over 2008 to 2009.

Huge growth of NPLs started in 4Q08, when Ukraine experienced significant currency devaluation by 58.4% during 4Q 2008. A major portion of loans were denominated in foreign currencies (primarily due to lower interest rates as compared to UAH loans) while borrowers' income streams were

primarily UAH-denominated. As a result the devaluation increased loan exposure which along with economic crisis made debt servicing challenging.

According to the National Bank of Ukraine (the NBU) as of 1 May 2012 overdue loans comprised \$10.3bn or 10.6% of gross loan book. However, this does not reflect true picture of NPLs held by Ukrainian banking system due to specifics of NBU reporting rules. According to the latter only tranches for which payment terms expired, but not the entire loan exposure, are accounted for as overdue loans. It is especially typical for retail portfolios which are generally repaid in many instalments.



Per Association of collection business in Ukraine (ACBU), during 2011 corporate NPLs decreased from 36% (end of 2010) to 30% (end of 2011), consumer NPLs from 50% to 40% of gross book, respectively. Overall NPLs volume decreased by \$6.7bn and reached \$30bn.

Over 2008-2009, NPL market was primarily represented by unsecured retail loans with 365+ DPD. In 2010-2011 there was a tendency towards the diversification of the market driven by sale of retail secured loans (mortgage, car loans), including loans with 180+ DPD. Generally, prices are not disclosed, but taking

into account the offers of market participants, prices fluctuated within 5-16% (of the face value) for unsecured loans and within 10-35% of the face value for secured loans depending on the quality of the security.

The volume of NPLs purchase market in 2011 reached \$1.5bn, according to the ACBU. The volume of NPLs that were written off and/or transferred by banks onto their SPVs is currently undisclosed. NBU Resolution #172 simplifies NPLs' write-off against formed provision.

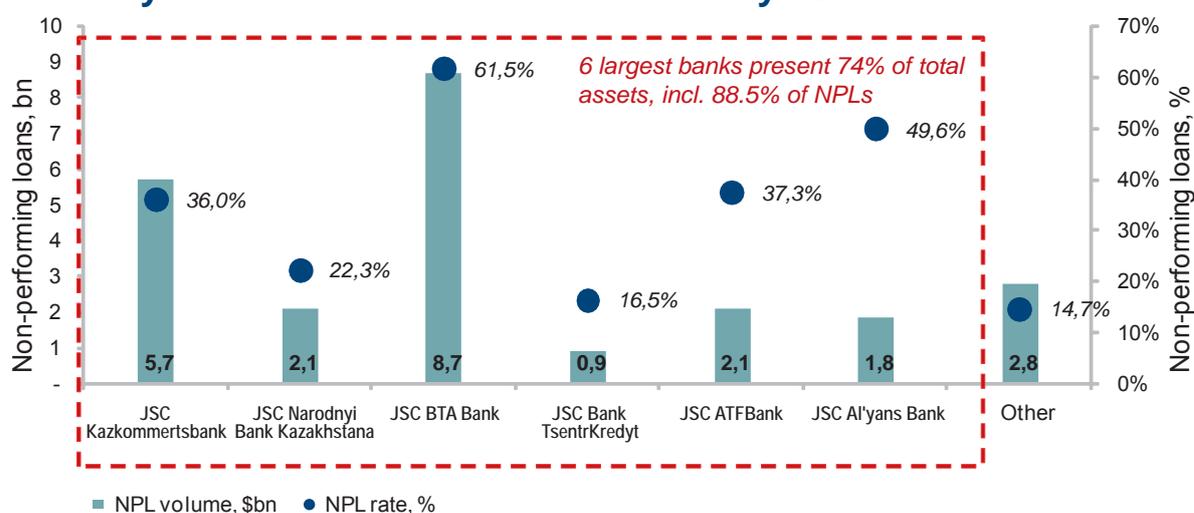
Kazakhstan

The Kazakh economy grew significantly between 2003 and 2007, mostly driven by foreign direct investment inflows into geological exploration works, crude oil and gas extraction, and rising energy prices. The global financial crisis, as well as a significant decline in commodity prices, had an adverse effect on GDP growth as well as concentrated banking sector were deteriorated. The Kazakhstan banking system consists of 39 banks and 6 largest banks by assets accounting for almost 74% of total banking assets as of 1 May 2012.

According to projections published by the Regional Financial Centre of Almaty, the profitability of Kazakh commercial banks is not expected to increase in the short term due to low interest income growth. The structure of the loan portfolio is projected to respond to the anticipated changes in the overall economy.

Specifically, the percentage share of the overall loan portfolio for telecommunications, agriculture, logistics, gas generation or distribution and utility sectors is expected to grow.

NPLs by banks in Kazakhstan as of 1 May 2012



Source: Committee for the control and supervision of the financial market and financial organizations of the National Bank of the Republic of Kazakhstan

The last tendencies on Kazakh NPL market are the following:

- The legislation for NPLs transfer to AMCs (SPVs) was created in 2011.
- As of 1 May 2011 total NPLs market that could be interesting for investors amounted to \$24.1bn.

- National Bank of Kazakhstan established Problem Assets Fund. It is expected that the Fund will repurchase corporate NPLs with nominal amount of \$2bn with 50% discount.

Summary

A long list of obstacles in the legal, judicial, tax, and regulatory areas is holding up NPL resolution. A survey of international institutions and banks operating throughout the region has identified the following issues, which do not necessarily apply to every country:

- In many CIS countries the legal framework for NPL transfer and collateral withdraw have not been created yet or were recently developed. There are a lot of judicial issues: for bank – unpredictability of court decision, for investors – possibility of court resolution's nullifying by the court of the higher instance.
- The court system is usually overloaded and judicial process is long and costly for NPL

owners. Due to legal gaps the borrower could free the assets from collateral obligations and sell it during the suits.

- Collateral sale is often performed under several auctions and requires execution with the minimum price. Ownership of collateral might be difficult to establish, or the rights of secured lenders might be undermined by retroactive bankruptcy declaration or debtors' ability to sell collateral during enforcement procedures.
- To achieve out-of-court and speed resolution on non-performing loans, CIS banks make restructurings with loan holidays. Serial loan restructurings may indicate that viable firms try to avoid debt

servicing and could perform liquidation, which will cause low recoveries on loans for the banks.

- Tax issues could arise around NPL resolution in some CIS countries. Creation of provision reduces taxable profit and the bank's tax obligation. From the other hand, banks operations could be limited due to loss activity. In some countries assets' sales/transfer must be performed with VAT creating deferred tax asset that could not be received.
- Finally, the existing instruments on recently created markets for distressed assets limit

the scope for NPL resolution but create a good niche for investors. The banks could not perform all NPL work themselves and are willing to sell problem loans. Existing price gap in the CIS region could decrease in answer to legislation creation and DPD increase.

Per Financial Times², investor interest in distressed debt is rising, with attention focusing on Europe as companies in the region struggle with their debt levels and banks step back from the credit market to build up capital reserves.

² <http://www.ft.com/intl/cms/s/0/5cd8b7a2-5e48-11e1-85f6-00144feabdc0.html#axzz1xfmDQnEy>

Part II. Distressed assets transfer process

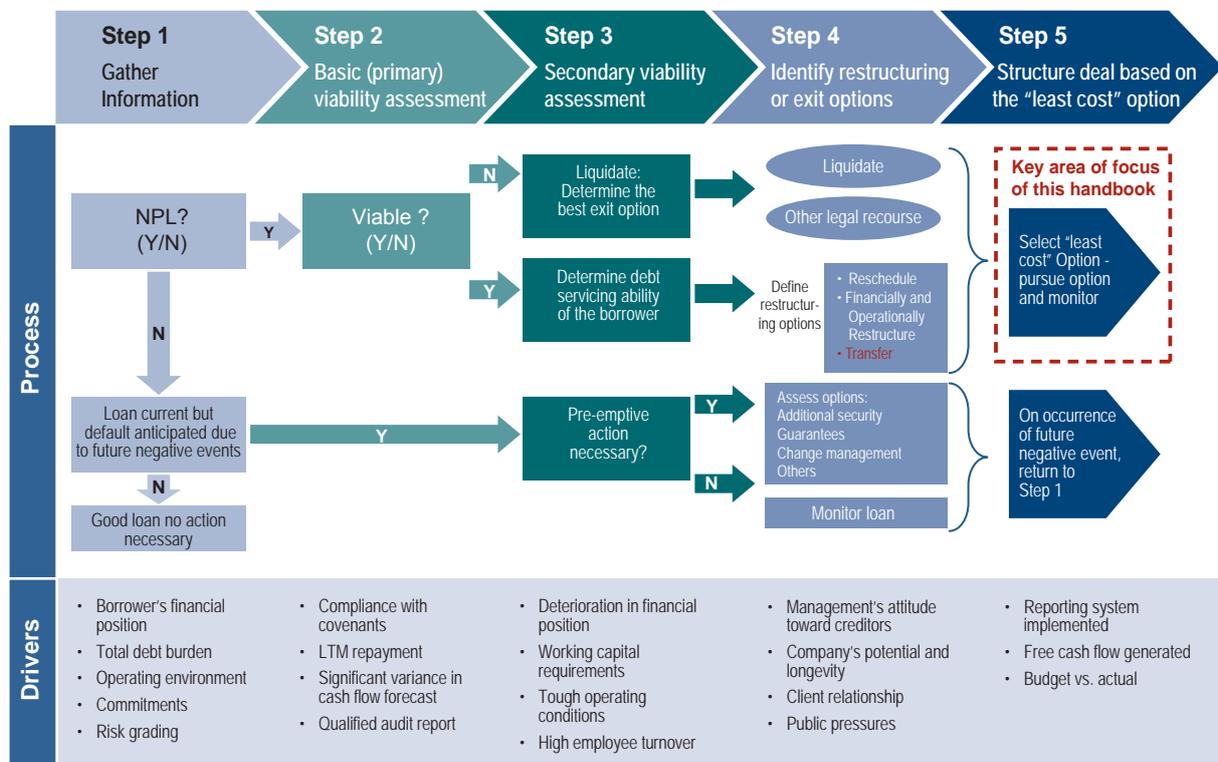
Every bank decides its own approach to NPL management. The choice of approach depends on the bank's development strategy and the particularities of the loan products offered by the bank, as well as on the availability of

fundraising mechanisms for maintaining the bank's liquidity and the availability of free funds, time, and skilled personnel to build their own framework for NPL workout and recovery.

Chapter 2.1. Strategy formulation

Step 1 Strategy formulation

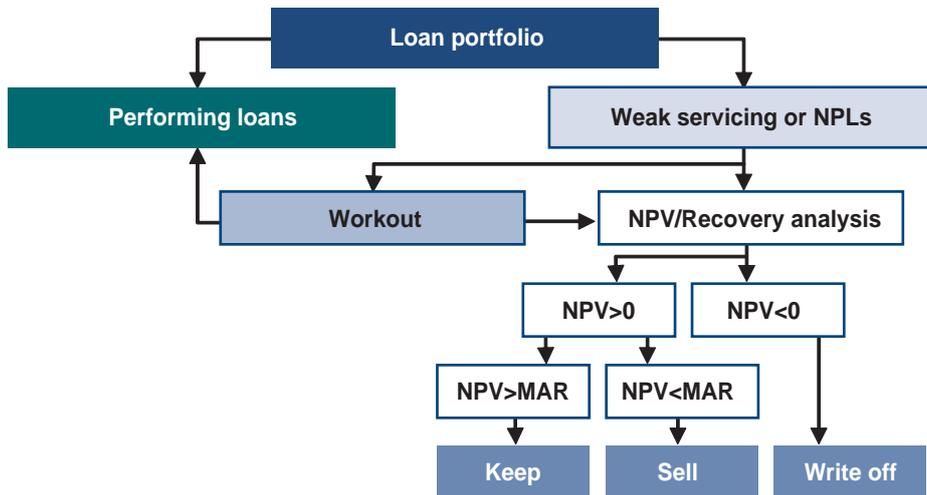
The general framework for an NPL settlement strategy is presented below.



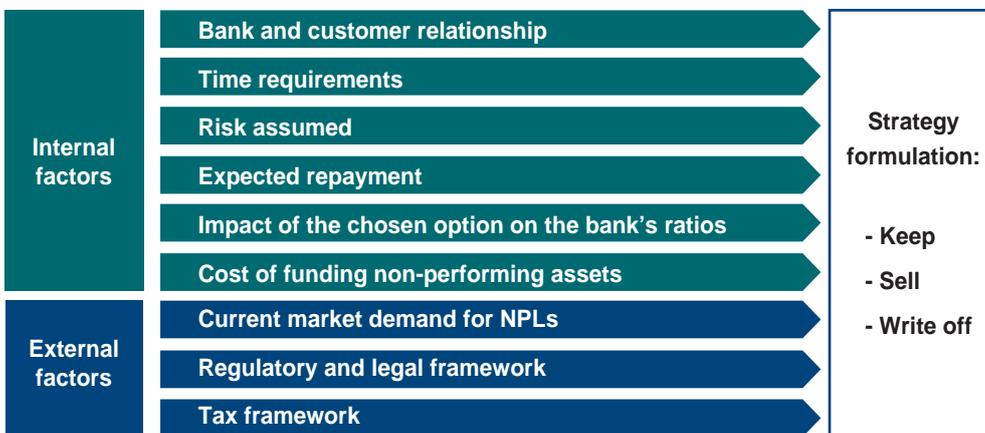
Banks have three main options for dealing with NPLs:

- **Keep** loans on the balance sheet and continue working out the solutions (mainly via restructuring or legal collection). Workout may be done either by an in-house collection department or through outsourcing;
- **Sell** to a third party. The vendor may continue servicing the portfolio on the basis of a service agreement;
- **Write NPLs off** the balance sheet and cease formal collection efforts.

As there is no predetermined optimal solution, a bank should establish the criteria for the strategic decision-making process. Below is a typical scheme for NPL option selection with the net present value (NPV) of proceeds from NPL recovery used as the basis for the decision. The bank may establish the minimum acceptable rate (MAR) of recovery as a percentage of the total exposure or a specific absolute amount.



A summary of the major internal and external factors that influence recovery and decisions regarding NPL strategy are presented below:



There are two key ways in which NPLs can be transferred from a bank's balance sheet:

1. **Sale** via a closed tender, an open tender, or an outright sale;
2. **Securitization of assets.**

a. Keep strategy

Statistics show that up to 60% of overdue loans are repaid within 90 days. If the DPD period is more than 90 days the probability and the amount of recovery decline significantly and the loans usually are subjected to the following:

- A loan is treated as distressed and is transferred to a special division that deals with NPLs.
- If negotiations with the borrower fail (hard collection), the division commences legal collection, which is a time-consuming and costly procedure and may last several years.
- Foreclosure of collateral seems to be a better solution in comparison to the expensive and often ineffective court enforcement option. However, in this case tax issues may affect the recoverable amount.

Reasons to keep NPL on the balance sheet could be influenced by:

- No budget for collection companies;
- No discount at sale;
- Deductibility of created reserves for profit tax purposes.

Despite their relatively high costs, banks tend to keep NPLs on their balance sheets as long as there is at least a slight chance of the outstanding amount being recovered, provided that the borrower cooperates with the bank.

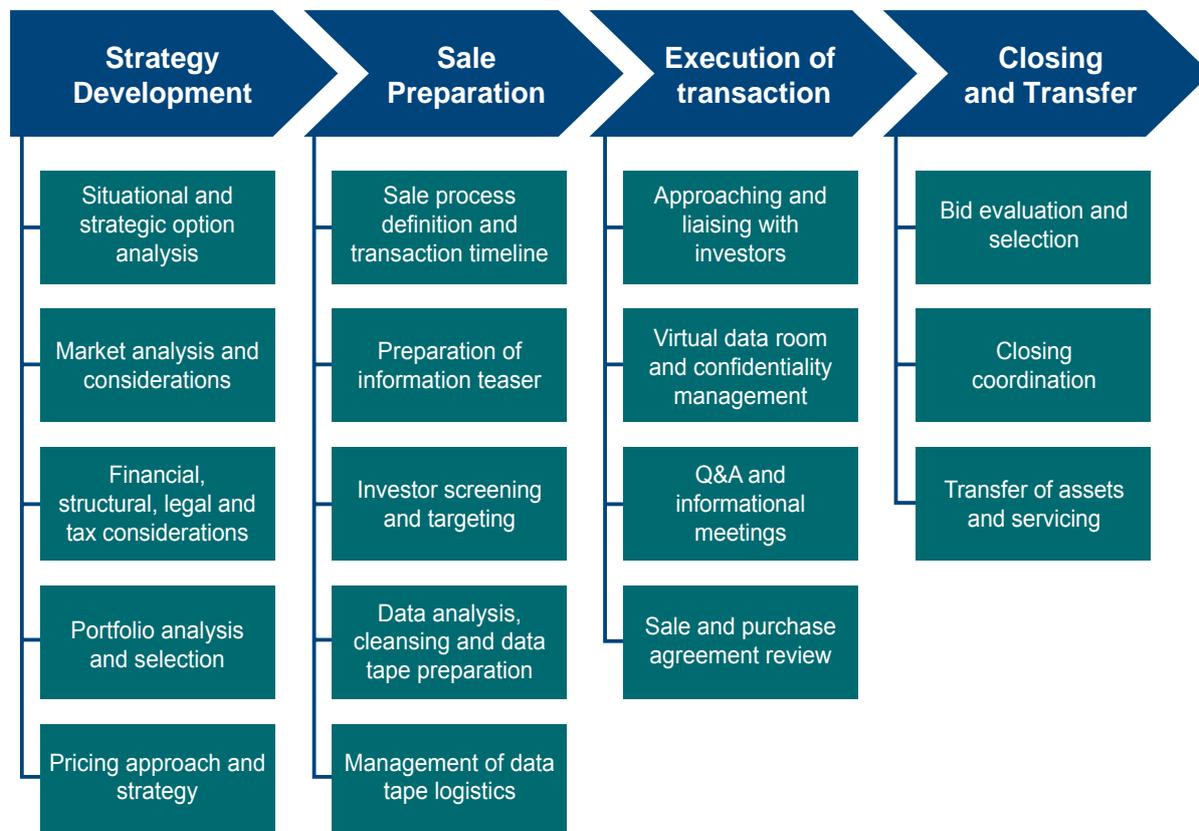
Refer to step 5 'Structure the transaction' for more details on transfer options.

b. Sell

Sale option could be performed via tender, outright sale or securitization. An outright sale of NPLs to a third party is a common global practice. The following underlying factors indicate that a bank should consider selling NPLs:

1. A lack of experience in NPL collection as well as insufficient time to develop and fine-tune relevant internal procedures.
2. A lack of skilled and experienced staff to efficiently address the existing volume of overdue debts.
3. The NPL portfolio is largely composed of a large number of small loans: a situation which is made harder to deal with due to an absence of a call centre and required software, etc.
4. The estimated recovery ratio of NPLs from internal efforts of the bank falls below a particular level (some experts suggest 30% of exposure, as a "rule of thumb", yet this situation may indicate not only an inefficient collection system, but also significant issues with loan and collateral documentation and faulty loan origination procedures).
5. The gross NPL portfolio is close to a certain proportion of the bank's total assets (30% on average, based on international practices).
6. The bank has a liquidity deficit and/or NPLs that weigh heavily on equity.
7. The required provisions exceed the maximum allowable tax deductible amount.

A typical sale process is illustrated below.



c. Write-off

One of the ways to clean the balance sheet of non-performing loans is to write them off. This is usually done if there is no hope of efficient debt collection, or the anticipated recovery amount is less than the expenses already incurred and required for the recovery. However, there are number of factors why a write-off might be chosen (e.g., increase of core

capital adequacy, avoidance of costs related to administration of the written-off NPLs, tax benefits).

Each of the methods for processing non-performing loans has advantages and disadvantages for a bank, as outlined below.

Strategy	Advantages	Disadvantages
Keep	<ol style="list-style-type: none"> 1. No expenses for collection companies 2. No discount at sale 3. Deductibility of created reserves for profits tax purposes 	<ol style="list-style-type: none"> 1. Expenditure of the bank's money and employees' time without guarantee of debt repayment 2. Eventual need to create a 100% provision (if outstanding amount is not recovered) 3. Negative impact of NPLs on the quality of the loan portfolio 4. Requirement to accrue interest income on NPLs for profits tax purposes

Sell	<ol style="list-style-type: none"> 1. No need for funding or human resources to process NPLs, allowing focus on profit-generating segments 2. Possibility of circumventing collection of NPLs, thus avoiding conflicts with the borrower 3. Enhanced loan portfolio quality due to transfer of NPLs 4. Possible improvement in currency position if currency loans are disposed of 5. Ability to recognize losses when assigning claims for profits tax purposes (however, amount of losses recognized is subject to certain limitations) 	<ol style="list-style-type: none"> 1. A proportion of portfolio value is lost due to a discounted sale 2. Release of reserves (or provisions) by the bank upon assignment results in taxable income
Write-off	<ol style="list-style-type: none"> 1. Increase of core capital adequacy 2. No need for input of bank funds and human resources to process NPLs, which allows for focus on profit-generating segments 3. Enhanced portfolio quality due to NPL write-offs 4. Execution of CB instructions 	<ol style="list-style-type: none"> 1. No transfer back to balance sheet 2. Possible tax disincentives

Chapter 2.2. Loan portfolio review (financial, tax and legal due diligence)

Step 2 Conduct due diligence

Distressed loan portfolios have become an established asset class for many international distressed debt investors. To diversify their exposure, investors are beginning to look outside traditional and established NPL markets. However, these investors have come to expect sales processes and legal documentation

to be reasonably consistent from country to country. Given that one of the key value determinants for an investor is the speed with which they can start working with the portfolio, the information prepared and presented to investors as a part of due diligence is critical to the success of any transaction.

Area	Key questions
Legal	<ul style="list-style-type: none"> • Are there any provisions in the loan agreement and security agreement (collateral, surety) that may impede the transfer of loans? • Are there any issues with the loan and collateral documentation that may weaken the bank's (or investor's) position in case of legal collection? • What is the legal prospect of enforcing collection and what legal actions have already been taken?
Financial	<ul style="list-style-type: none"> • What is the current debt servicing in relation to the loan, and is there any prospect of recovering of the outstanding amount? • What is the current provision level and is there any need for additional provision? • How is the loan secured? Does collateral exist? What condition is it in? What is its value? Is the valuation up-to-date and robust?
Tax	<ul style="list-style-type: none"> • Not usually performed in relation to the portfolio, but tax structuring of the transaction is required – refer to step 5 in this section.

Given that one of the key value determinants for an investor is the speed with which they can start working with the portfolio, the information

prepared and presented to investors as a part of due diligence is critical to the success of any transaction.

Chapter 2.3. Segmentation of a loan portfolio to maximize value

Step 3 Segment the portfolio

The loan portfolio usually undergoes a process of high segmentation during the loan review and strategy formulation stage. After the decision to sell a portfolio is made, a bank should divide the portfolio into appropriate clusters/baskets to maximize the portfolio's value.

In order to increase the selling price, a bank may consider adding a portion of performing loans that generate stable cash flow or other non-core assets which may be of interest to investors. An example of segmentation drivers are presented below.

Level	Basis
1	Terms of origination: maturity, products, industries, availability and type of security, etc.
2	Days of delinquency
3	Currency

There is no optimal solution for portfolio segmentation and it is necessary to take main value drivers into account each time.

Corporate loans have a wide range of peculiarities, making standardization more difficult than for loans to individuals. This is one of the reasons for the underdevelopment of the corporate NPL market.

After segmentation is completed, a qualitative analysis of all sub-portfolios obtained is conducted. In qualitative analysis, the focus should be on the assessment of recovery prospects.

Chapter 2.4. Valuation methodology

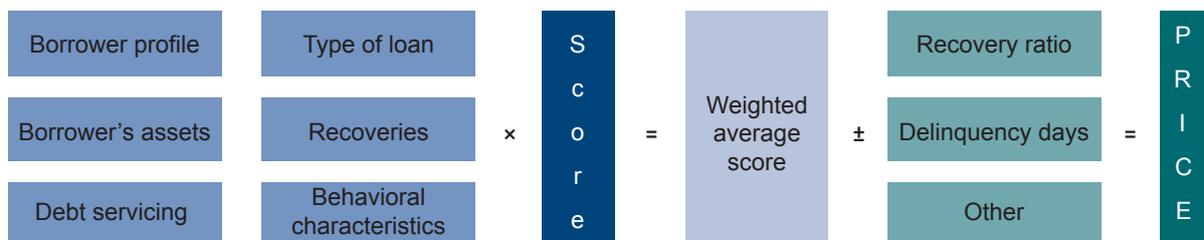
Step 4 Value the portfolio

One of the major factors constraining development of an NPL market is the absence of an efficient methodology for determining the assets' fair value. This value is based on the amount that is likely to be collected and takes into account the period necessary for collection, as well as financial expenses and the required

return for an investor.

Portfolios of retail and corporate NPLs are usually evaluated separately because the factors affecting their value are fundamentally different.

Retail portfolio



Analysis of the loan portfolio quality covers the following factors:

- Age, social status, and financial capacity of a borrower (i.e. his/her profile);
- Availability of other borrower's assets (i.e. those which do not secure this exposure), especially the liquidity and reliability of property securing the loan, and availability of valuation reports relating to the security;
- Availability of a solvent guarantor and/or security;
- Recent history of payments/date of the latest payment, and amount of the loan already repaid;
- Factors that have led to poor debt servicing;
- Actions already taken towards debt recovery;
- Potential to exert influence over the borrower;
- Availability and other behavioral characteristics;
- Completeness and quality of information on the borrower and the borrower's relatives and guarantors.

Each of the factors listed above is assigned a score. These factors are then combined into complex indicators and the scores are totaled and weighted, usually for first-level sub-portfolios. Then, a recovery ratio is derived by discounting cash flows that are expected to be received from the recovery of the NPLs. The discounting period is selected based on

available statistical data on the time spent on debt recovery of sub-portfolios of differing quality. The discounted cash flows are then compared with the outstanding exposure of the NPLs to determine the ratio. The ratio is usually calculated for days past due (DPD) clusters (e.g. 1-30, 31-60, 61-90, and 91-180 DPD, etc.). Refer to **Appendix 2** for details.

Corporate portfolio



The main principals behind retail loan valuations are also generally appropriate for small corporate loans. The majority of medium and large corporate loans, though, usually have important features that are very individual. This, together with a lack of representative statistics on their recovery, makes a loan-by-loan assessment approach more appropriate for these types of loan.

The importance and priority of different aspects of the analysis are contingent on the processing stage of the troubled loan. It is extremely important to know what measures have already been taken to collect the loan. If the NPL is at the litigation stage, it is necessary to understand the borrower's legal position and assess the bank's chances of receiving a favorable decision.

In addition, the factors that led to poor debt servicing should be investigated as well as the borrower's management plans regarding the future of the business. Sometimes, a failure to meet commitments on the agreement is not the result of eroded financial performance, but is a

deliberate policy implemented in which priority is given to payments other than debt servicing payments. This requires an assessment of the borrower's capabilities of generating cash flow.

Finally, it is essential to analyze the value and marketability of the security, the quality and completeness of loan documentation, and the importance of the pledged assets to the borrower's activities.

Today, behavioral scoring is used by banks to measure customer behavior, and to improve credit portfolio management and customer management. When applied to NPL and collateral portfolio processing systems, behavioral scoring helps automatically segment and rate accounts, customers and portfolios; thus allowing the credit account of a particular borrower to be efficiently managed as well as the entire credit portfolio.

Chapter 2.5. Elaborating the transaction structure

Step 5 Structure the transaction

The following general considerations should be taken into account when choosing the appropriate structure for a transaction:

Legal	<ul style="list-style-type: none"> • Legal form of the transaction (sale, factoring, assignment) • Availability of litigated NPLs, stage of litigation • Issues regarding assignment of collateral to an SPV and subsequent repossession • Transferability of FX-denominated loans • Disclosure of bank secrecy and personal data information
Tax	<ul style="list-style-type: none"> • Debt/equity mix in SPV • Deductibility of tax losses in SPV • Tax inefficiencies related to repossession of collateral by SPV • Personal income tax consequences related to work-out of retail loans • Taxation of forex gains/losses • Transfer pricing issues • Exit strategy
Financial	<ul style="list-style-type: none"> • True sale treatment of the transaction • IFRS consolidation issues in case of captive sale to SPV • Forex risk management • Limited hedging tools, forex gain/losses arise • Fair value accounting • Effect on the bank's regulatory compliance

2.5.1. Tax and legal issues

Distressed loan portfolios have become an established asset class for many international distressed debt investors. To diversify their exposure, investors are beginning to look outside traditional and established NPL markets. However, these investors have come to expect sales processes and legal documentation to be reasonably consistent from country to country. Given that one of the key value determinants for an investor is the speed with which they can start working with the portfolio, the information prepared and presented to investors for due diligence is critical to the success of any transaction.

Legal due diligence

Legal due diligence of the loan portfolio is one of the key steps in preparing the assignment of NPLs. The purpose of this stage is to determine the possibility of assigning loans and estimating the quality of the loan portfolio from a legal perspective.

Key areas of concern for this stage are as follows:

- Are there any issues with a loan and collateral documentation that may weaken the bank's (or the investor's) position in the event of a legal collection?

- What are the legal prospects of enforced collection and what legal actions have already been taken?

Legal due diligence is often performed by external legal consultants who are hired to review standard contractual documentation and other documents for the creditor that may affect assignment of the transaction.

Standard contractual documentation

In practice, it is often impossible to review each contract involved in a retail loan portfolio sale. As a result, the primary focus of a legal due diligence is to analyze the creditor's standard documents (or templates) which formalize contractual relationships between the debtors and the creditor.

These standard documents can be divided in two main groups:

- *Loan agreement (primary obligation)*, together with all supplementary agreements and attachments, and any other relevant document that serves to frame the loan contract;
- *Collateral obligations* which secure the performance of the primary obligation (loan agreement): a security agreement or mortgage certificate (security), or a surety agreement.

Standard contractual documents should be thoroughly reviewed in terms of their compliance with statutory regulations and their effectiveness at protecting the rights of the creditor. The contractual documents should contain no provisions which directly or indirectly impede loan assignment.

Notification requirements

Prohibition or restriction of the assignment of rights arising from loan or collateral agreements to third parties may seriously affect the transaction.

Other issues

Analysis of standard contractual documents may also reveal other important legal issues that should be taken into consideration, including the following: banking confidentiality issues, private data protection issues, transfer of insurance claims etc.

Bank's charter and negative obligations

Another important part of legal due diligence involves analyzing foundational documents and contractual obligations which may create legal barriers to the loan assignment (negative obligations).

Bank's charter and corporate approvals (major and related party transaction)

An assignment agreement may require corporate approval(s) of the transaction by the governing bodies of the assignor and (or) assignee. Although the law may stipulate common requirements and procedure for the approval of major and related party transactions, some specifications and/or additional requirements may be stipulated in a bank's charter.

As a rule, approval of major transactions should be sought either through a general shareholder meeting or from the board of directors. A major transaction can be approved either before or after it has been concluded.

However, a bank's charter may stipulate additional requirements for major transactions. For example, a charter may establish approval thresholds in terms of transactional value; apply major transactional procedure to certain types of transactions regardless of their value (e.g. real estate transactions); and/or stipulate an additional, specific procedure for the approval of a major transaction (or the approval of the major transaction by the board of directors).

Related party transactions may also require the approval either through the general shareholder meeting or of the board of directors.

If a bank fails to obtain corporate approval for a transaction, the bank or its shareholders are eligible to file a lawsuit to claim the transaction void.

Negative obligations

Attention should be paid to the contractual obligations of the assignor (or its parent companies). These agreements may include

various provisions which restrict the right of the assignor to dispose or pledge its property and conclude certain types of transaction, etc. (such restrictions are often stipulated in syndicated loan agreements and some other debt agreements).

These obligations should be reviewed by a due diligence team which should include specialists qualified in any applicable foreign law(s).

Summary: legal DD of a loan portfolio (key issues)	
Loan agreement	<p><u>Notification/consent of the debtor</u></p> <p>In general, a debtor's consent is not required unless otherwise stipulated in a contract or in the relevant law(s);</p> <p>Failure to notify (or improper notification of) the debtor may increase the risk of debt non-performance.</p>
	<p><u>Set-off</u></p> <p>Offsetting debtor counterclaims may increase the risk of debt non-performance;</p> <p>A loan agreement should include provisions that limit or disable the rights of the debtor to offset his or her counterclaim(s).</p>
	<p><u>Direct debit clauses</u></p> <p>In general, the rights to directly withdraw the funds from debtor's bank account are not automatically transferred when a loan is assigned;</p> <p>A loan agreement should include provisions which allow direct debit transactions to be performed in favor of the assignee.</p>
	<p><u>Commissions</u></p> <p>Negatively perceived by regulators and the courts, commissions increase the risk of potential disputes with debtors;</p> <p>It is recommended that commissions are assigned under a different transaction;</p> <p>Some types of commissions are non-transferable;</p> <p>Best practice is that commission fees should be eliminated from the scope of an assignment agreement.</p>
Collateral obligations	<p>Collateral obligations should clearly refer to the primary obligation;</p> <p>It is advisable to check the sustainability of collateral obligations (subsequent pledge restrictions, succession of obligations under a surety agreement, etc.)</p>
Bank's charter	<p>A bank's charter may stipulate specific provisions for corporate approvals (e.g. major and related party transactions).</p>
Negative Obligations	<p>Contractual obligations of the assignor may include restrictions which may negatively affect an assignment transaction.</p>

Tax and legal structuring considerations

Specific tax and legal issues may arise while structuring the sale of NPLs.

Potential legal issues

- Defining legal form of sale (factoring agreement, sale and purchase agreement, claim assignment agreement)

The legal form of the agreement should be driven by the legal capacity of a purchaser (financial or non-financial institution) and scope of rights being transferred (i.e. whether only receivables or the whole contractual position is transferred).

- Availability of litigated loans

The procedural legislation has to be analysed as to the possibility for a purchaser to succeed a bank in court litigation with a borrower.

- Potential inability to charge interest

The transferability of rights to charge interest from the seller to the buyer should be examined.

- Risk of assignment under the collateral agreements and possibility of subsequent assignment

The registration of transfer of rights to the pledge and mortgage in the respective state registers is normally required unless automatic transfer of rights to the security is expressly envisaged by the legislation.

- Possibility of assignment of loan claims denominated in foreign currency

In certain countries, specific legislation may exist impeding the sale of foreign currency loans (e.g. licensing requirements). For such countries, the solution may be to conclude servicing (collection) agreement between a bank and SPV for collection of proceeds denominated in foreign currency, which should generally allow to avoid licensing of the SPV.

- Disclosure of bank secrecy and borrowers' personal data

Banks is bound by data protection and banking secrecy that may limit or even prevent the full disclosure of data to potential buyers and their advisors.

The above list of issues is not exhaustive and careful legal structuring of the transaction is therefore required.

Potential tax issues

- Tax consequences should be considered by the buyer at the stage of financing SPV (thin capitalization rules, withholding tax on interest and dividends) to decide on the optimal debt/equity mix and SPV's ownership structure;
- Deductibility of bad debt provisions / tax losses incurred by SPV from debt work-out should be considered (e.g., in certain jurisdictions, losses from debt work-out are allowed for loan originators only);
- Personal income tax consequences should be analysed in relation to work-out of retail loans (whether "haircuts" or discontinued interest accrual are included as taxable income of the borrower, whether foreclosure of collateral is taxable to the borrower);
- Taxation of foreclosure of collaterals is also important (for example, in certain jurisdictions foreclosure is a VAT-able transaction);
- Forex issues may have impact in case of unbalanced foreign currency position of SPV (in case of SPV funding in foreign currency or NPLs denominated in foreign currency);
- Movement in loan loss provisions of the seller may be either taxable or deductible depending on whether the loans are sold at the price above or below net book value);
- Debt collection and loan administration activities, if retained by the selling bank, may become subject to VAT;
- Transfer pricing issues may be relevant for captive transactions;

- Permanent establishment issues have to be analysed in case of purchase of NPLs by offshore SPV (especially as a result of collateral foreclosure);
- Other tax issues may be relevant depending on the tax jurisdiction of the seller and/or buyer.

2.5.2. Financial and accounting issues

In accordance with applicable local accounting standards additional accounting and financial issues which influence both banks' and investors' financials are arising. The major issues by options are presented in the table below.

Major financial and accounting issues by options

Issue	Keep	Sell	Write-off
	Bank's financials and ratios (bank's viewpoint)		
Influence of the option implementation on regulatory ratios	√	√	√
Managing the bank's currency position	√	√	√
Consolidation and "true sale" issues	-	√	-
	SPV Financials (investor's viewpoint)		
Accounting for FX-denominated loans	-	√	-
Loan loss provisioning for FinCo	-	√	-
Forex risk and hedging considerations	-	√	-

The Transaction may affect the following ratios of a selling bank:

- **Equity capital.** Most likely, sale of NPLs will ultimately result in improvement of the Bank's capital. However, this may not be the case if proceeds from disposal of NPLs are lower than net outstanding amount.
- **Capital adequacy.** The transaction effects the amount of risk assets and the capital adequacy ratio increases. This ratio should be carefully considered when the bank transfers NPL to a new SPV owned directly or indirectly by a bank. For the purpose of regulatory capital calculation, all investments in subsidiaries decrease the bank's capital and in accordance with the CBR definition of banking group, all companies under substantial control are considered as subsidiaries.
- **Liquidity position.** The Bank's liquidity position most likely will change significantly as a result of Transaction due to the fact that the loans of different maturity clusters will be replaced by cash from the purchaser.
- **Credit risk per customer** is likely to be improved as a result of likely improved equity capital and potential disposal of material loans.
- **Currency risk.** Transfer of FX-denominated loans off the balance sheet will result in shortening of the Bank's FX position by the amount of loans transferred.

Modelling exercise is required in order to quantify the effect of the Transaction on required bank ratios and the future Bank's financials.

Normally accounting standards require the consolidation of entities that are controlled by the reporting entity. For example, based on IAS 27, control over another entity requires having the ability to direct or dominate its decision-making, regardless of whether this power is actually exercised. Local accounting standards may also contain other criteria.

Generally, standards indicate several circumstances which result in control even in cases where an entity owns one half or less of the voting power of another entity. Similarly (like IAS 27, for instance), control may exist even in cases where an entity owns little or none of SPV's equity. The application of the control concept requires, in each case, judgement in the context of all relevant facts and circumstances as covered by applicable GAAP.

It is likely that there will be elaborated the guidance on the consolidation of SPVs (like SIC 12³ in IFRS).

In order to decide on the necessity to consolidate SPV into IFRS financials of the Bank, the following questions may be required to get answered:

- Is there a control presumed to exist from the side of the Bank, directly or indirectly through subsidiaries, of more than half of the voting power?
- Which entity will have a power over more than half of the voting rights by virtue of an agreement with other investors in SPV?
- Which entity will have a power to govern the financial and operating policies of the entity under a statute or an agreement?
- Who will have a power to appoint or remove the majority members of the board of directors or equivalent governing body which would control SPV?
- Who will have a power to cast the majority of votes at meetings of the board of directors

or equivalent governing body which would control SPV?

- In substance, would the activities of SPV be conducted on behalf of the Bank according to its specific business needs so that the Bank obtains benefits from SPV's operation? Is SPV principally engaged in providing a source of long-term capital to the Bank or funding to support the Bank's ongoing major or central operations? Does SPV provide a supply of goods or services that is consistent with the Bank's ongoing major or central operations which, without the existence of SPV, would have to be provided by the Bank itself?
- In substance, who will have the decision-making powers to obtain the majority of the benefits of the activities of SPV either directly or, by setting up an 'autopilot' mechanism, through delegation of these decision-making powers? Who will have a power to unilaterally dissolve SPV? Who will have a power to change SPV's charter or bylaws? Who will have a power to veto proposed changes of SPV's charter or bylaws?
- In substance, who will have rights to obtain the majority of the benefits of SPV and therefore may be exposed to risks incident to the activities of SPV? Who will have the rights to a majority of any economic benefits distributed by SPV in the form of future net cash flows, earnings, net assets, or other economic benefits? Who will have the rights to majority residual interests in scheduled residual distributions or in a liquidation of SPV?
- In substance, who will retain the majority of the residual or ownership risks related to SPV or its assets in order to obtain benefits from its activities?
- Will the Bank guarantee a return or credit protection directly or indirectly through SPV to outside investors?
- Will the Bank perform any services for SPV?

³ Effective 1 January 2013 SIC 12 will be replaced with IFRS 10 "Consolidated financial statements" which will put under one roof requirements of IAS 27 and SIC 12

In addition to the above points, while structuring SPV activities, it is necessary to ensure that SPV is considered as a standalone entity, not dependent on the Bank's business.

“True sale” treatment of the Transaction

In a traditional true sale structure, a vendor sells a pool of assets to an SPV. The latter funds the purchase of assets via the issue of securities or via attraction of loans. The SPV is isolated from any credit risk of the vendor and the credit enhancement of the pool.

If the sale fails to meet these criteria, the Bank will have to keep the loans in its books and treat obtained consideration for the portfolio as a loan due to a buyer.

The SPV may be exposed to forex risk as described in the previous chapters. Hence,

the SPV may consider setting up a hedging structure in order to cover its forex exposure.

In case the SPV is established by the Bank the easiest hedging solution would be to cover its exposure by the Bank's open currency position so that consolidated FX position of the Bank and the SPV is balanced. Modelling is required to estimate whether the Bank's open FX position may be increased to cover local currency loans in the SPV. If the Bank's limit of FX position is not sufficient to cover the SPV's exposure, the Bank may consider entering into loan-deposit swap arrangement with a third-party Bank, which may be a rather costly hedge due to difference in interest rates on FX and RUB.

However this may not be the case when the Bank seeks for non-consolidation or the SPV is not established and controlled by the Bank.

2.5.3. Value maximization

The sale options described should not be considered mutually exclusive. One strategy could apply to the whole portfolio or to different asset strata, or each of the options could be applied to different strata, depending on the assessment of how value will be maximized and what the vendor's specific priorities are. For example, if maximizing value is the key priority, the best solutions would be a tender or a securitization. If speed of sale or confidentiality of information is the key objective, then an outright sale may be the preferable option.

In order to maximise value to investors and provide greater value to a bank, ultimately through higher prices, the following key focuses, defined by market best practices, should be considered (as should the appointment of a qualified, sell-side advisor):

- **A consistent and simple sale process** – investors are looking for a professional sale process and want to be confident that the vendor will complete the transaction

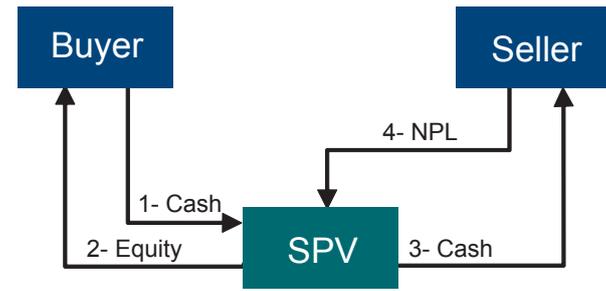
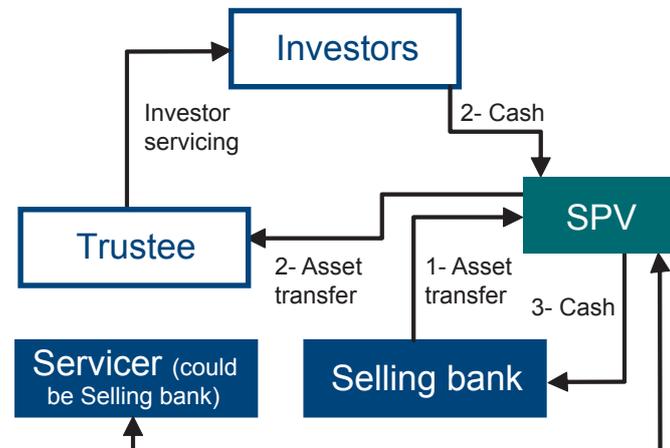
at a realistic, market-based price. From their perspective, the less complex the sale process, the better. A process with too many bid stages or a process that is unstructured can be time-consuming and confusing for investors. It may also make it difficult for the vendor to compare bids at the end of the process;

- **Quality and timely information** – investors require quality information to mitigate against additional discounting risks and to maximise value. Refer to **Appendix 1** for typical data requirements;
- **A reliable and realistic timetable** – a timetable that is adhered to by the bank and investors limits commitment of resources from both parties.

The biggest obstacle to closing a transaction is the different in expected price between vendors and investors. One possible step towards bridging this gap would be to structure a deal that shares risks and rewards. From the transfer

of a specific loan to structuring the transfer of loan portfolios, returns may be improved by considering various alternative structures. The most viable of them are the following:

1. Sale;
2. Securitization.

Option	Typical Scheme
<ul style="list-style-type: none"> • open or closed tender • outright sale 	 <p>For a tender, the buyer is the bidder who proposes the highest price compared to other tender participants.</p>
<ul style="list-style-type: none"> • securitization 	

A sale of NPLs to a third party is a common global practice and is still the most widely-used practice. The other options are poorly developed in the legislation of many if not most jurisdictions. The major advantages and disadvantages of the various NPL transfer options are summarized below.

Option	Advantages	Disadvantages
Tender	<ol style="list-style-type: none"> 1. Wider base of professional investors may be reached, which should lead to value maximization 2. Reasonably quick, one-off process 	<ol style="list-style-type: none"> 1. Greater management efforts 2. Significant amount of information needs to be collected to satisfy investors 3. Will not reach all potential investors
Outright sale	<ol style="list-style-type: none"> 1. May be relatively quick 2. Information supplied and transaction structure are specifically tailored to investor 3. Confidentiality easier to maintain 	<ol style="list-style-type: none"> 1. Information requirements may be too specific 2. More time and efforts may be required in some instances, especially where there are failed negotiations 3. Consolidation requirements for the investment funds organized by the bank 4. No competition: lower price 5. May not reach those who might make highest bids 6. Limited investor base
Securitization	<ol style="list-style-type: none"> 1. May diversify and target funding sources, investor base, and transaction structures 2. Value maximized 	<ol style="list-style-type: none"> 1. Very complicated and time-consuming process (requires rating; there are extensive information requirements) which eventually leads to high transaction costs 2. Consolidation requirements for the investment funds organized by the bank 3. Highly regulated 4. Lowest confidentiality

Part III. Transfer structures: the CIS region specifics

All countries have almost the same general options of NPLs transfer (refer to the Chapter 2.5.3 of the Section “Distressed assets transfer process”): a tender, an outright sale and a securitization. At the same time, some regional specifics of options’ implementation exist. Generally, market participants in developing countries lack established and clear regulation on bad loans management and thus have to adjust global practices to local specifics:

- *Investment fund* in the form of Closed Mutual Investment Fund (CMIF) in Russian Federation and in the form of Mutual Investment Fund (MIF) in Ukraine can be considered as a form of securitization or operations with hedge funds.
- An outright sale of NPLs to a third party usually performs in the form of a *factoring transaction* with a factoring company or a bank in the CIS countries.
- *Claim assignment* transactions are not very popular in the CIS countries and are widely used for captive transfer of loans.
- In Kazakhstan *bad banks* are created by the financial regulator, the National Bank of Kazakhstan, in the form of Problem Asset Fund and commercial banks in the form of SPVs.

Chapter 3.1. Transfer to a Mutual Investment Fund

Option 1 Cession to a Closed Mutual Investment Fund (Russian Federation)

The *investment fund* may be an external party that intends to generate profit from recovery of the acquired distressed assets, or a special purpose vehicle established by the bank exclusively for

holding its NPLs. When the bank transfers debts to its own *CMIF*, the structure of its balance sheet can be enhanced in accordance with local reporting standards only in certain cases.

Option	Advantages	Disadvantages
Cession to a CMIF	<ol style="list-style-type: none"> 1. Likely to be more tax effective 2. High liquidity of certificates 	<ol style="list-style-type: none"> 1. More time and funds may be required for establishing the CMIF 2. Consolidation requirements for the investment funds organized by the bank 3. Lack of information transparency.

The legislative framework which regulates investment fund activities was adopted in 2001

(Federal Law “On investment funds” No. 156-FZ dated 14 November 2001).

At present, Russian closed mutual investment funds (CMIFs) are classified according to investment objectives: rent, real estate and development (real estate for professional investors). Growth in the level of NPLs and non-core assets on bank balance sheets give cause for the establishment of a CMIF, as does the need for managing NPLs.

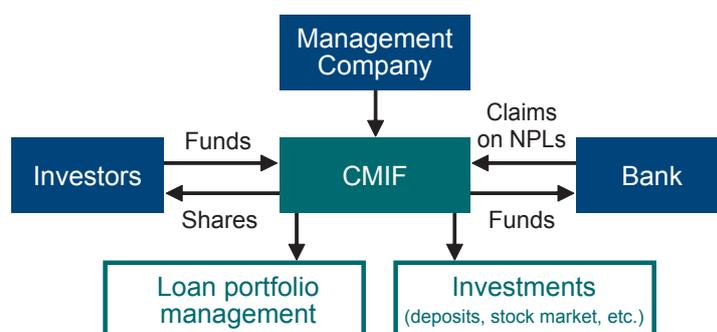
Banks can establish a CMIF and transfer assets in four ways:

1. The bank transfers non-core assets to a CMIF and receives securities in return
2. The bank invests funds in a CMIF in

exchange for securities, and then the CMIF buys the bank's non-core assets

3. Borrowers transfer non-core assets to the CMIF and repay outstanding loans by means of the securities they have received from the CMIF
4. The bank transfers or sells non-performing loans (not collateral) to the CMIF, and later the CMIF repossesses the pledged assets and manages them

The following operating scheme is used if a bank creates an SPV in the form of a CMIF for the purposes of NPL transfer:



Russian legislation allows CMIFs to classify certain claims as receivables. Please refer to **Appendix 3** for details on aspects of accounting.

According to Federal Law “On consolidated financial statements” #208-FZ dated 27 July

2010, IFRS reporting must be used by credit, insurance and all other public entities in the Russian Federation from 2012.

Option 2 Transfer to a Mutual Investment Fund (Ukraine)

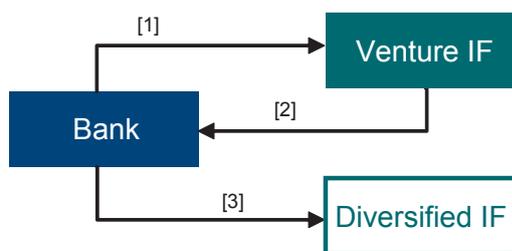
The legislative framework which regulates the investment funds activities was adopted in 2001 (Law of Ukraine “On collective investment vehicles (unit and corporate investment funds” No. 2299-III dated 15 March 2001).

As of today Ukrainian funds are not classified based on investment objectives. Although there are no direct prohibitions for transferring loan portfolios to such funds, underdeveloped legislation and insufficient knowledge of

market participants impedes the use of funds for managing bad assets. So far, bad assets in Ukraine are mainly sold to factoring companies affiliated with debt collection companies, and the practice of establishing MIFs has not become widespread. There are virtually no legal procedures, and, to the best of our knowledge, the general banking community is not considering MIFs as one of the preferred options for managing bad assets.

That said, currently, the National Commission on Securities and Stock Markets (hereinafter, the “NCSSM”) is developing methodological regulations which will govern the acquisition of loans by Asset Management Companies (hereinafter, the “AMC”) into the venture funds (hereinafter, the “VIF”). NCSSM intends to solve core problems in this area. In particular, execution of assignment of loan claims by AMCs at the expense of VIF’s assets, currency license to assign FX-denominated loans valuation methodology for banks’ distressed assets and accounting of claim rights under loan agreements, etc.

In case a bank creates SPV in the form of MIF for purposes of transferring the NPLs, the following steps will have to take place: the bank acquires venture investment certificates [1], the venture investment fund uses these funds to acquire non-performing bank assets [2]. According to Ukrainian law, bank will have to create a provision in the amount of 100% of venture investment certificates. As such, from perspective of bank’s balance sheet, investment certificates may create a higher pressure than original NPL portfolio.



However, if the investment fund is founded by a third party, no consolidation is required as well as no need to acquire the fund participation securities which are 100% provisioned.

Alternatively, to prevent the provision, the Bank may sell certificates of a venture fund to a *Diversified Investment Fund* in exchange for its certificates which do not generally require provisioning [3]. Thus, the Bank avoids provision requirements and the diversified investment fund avoids prohibition of investing in loan claims rights.

According to the Ukrainian accounting standards, loan claim rights are accounted for as *receivables*. For accounting details please see point 5 of *Guidelines on accounting basic operation of mutual investment funds* approved by Ukrainian association of investment business. The Guidelines prescribe that assets are accounted for as financial investments according to UAS 12 “Financial investments”. If financial investment is purchased in exchange for other assets, its cost is determined according to a fair value of the assets purchased. All receivables (i.e. principal, interest, penalties, etc.) on financial investment are recorded as financial income.

Chapter 3.2. Factoring deals

In the CIS countries banks usually use factoring agreement with the bank or financial institution (factoring company) for sale of NPLs.

According to the factoring agreement (financing against assignment of monetary claims), one party (factor) shall transfer or undertakes to transfer funds to the other party (client) for a consideration (payable in any manner specified in the agreement), and the client shall assign

or undertake to assign to the factor its right of monetary claim to a third party (borrower).

Only monetary claims can be assigned. Certain de jure limitations exist on assignment of other non-property rights, which are connected to principal monetary obligations (e.g. obligation to provide financial statements, notification obligation, keeping of secured property, etc.)

Chapter 3.3. “Bad banks” in Kazakhstan

To segregate of a bank’s “good” assets from its “bad” assets, thereby improving the overall quality of the bank’s credit portfolio, two types of vehicles are established in Kazakhstan:

- the “Problem Assets Fund” (PAF) – a fund, created by the National Bank of Kazakhstan (the “NBK”), for a limited period of time which will purchase bad assets of one or more Kazakh banks;
- the “SPV” – creation or acquisition by a bank of a subsidiary which will acquire the bank’s bad assets.

Problem Assets Fund

The Problem Assets Fund, known as Joint Stock Company “Fund of Problem Loans,” was registered on 11 January 2012 effectively replacing the Distressed Assets Fund (controlled by the Government through the National Wealth Fund “Samruk-Kazyna”) which was created in 2008. The Problem Assets Fund is expected to acquire bad corporate loans and the security associated with those loans (except for mortgage loans), and it will manage those loans and the attached security until they can be sold (by way of securitization or otherwise) to third parties.

The Fund will acquire loans with the associated security at a carrying value or at a negotiated discount. To finance its operations, the Fund may issue bonds which are expected to be placed among pension funds, banks and the NBK.

SPV in Kazakhstan

The Banking Amendments⁴ also authorize a bank to establish or acquire a SPV (subsidiary) which will then acquire the bank’s bad assets.

Thus, the SPV will act as an affiliated “bad bank” to the parent bank. Such SPV may be established only with the permission of the NBK, and the parent bank will not need to comply with the general no-loss/financial stability requirement which ordinarily applies when a bank creates a subsidiary.

A bank may establish any number of SPVs. While the Problem Assets Fund will acquire primarily corporate loans and the related security (except for loans secured by mortgage of real estate), it is intended that SPV will acquire primarily mortgage loans. As with the Problem Assets Fund, SPV will manage those loans and sell them to investors (by securitization or direct sale). SPV will not be required to foreclose on the mortgaged security. Proceeds received by SPV from the sale of the bad assets will be transferred further to the bank.

SPV can be created only for a given period of time within which it must either sell the assets (loans and associated security) acquired from the parent bank or transfer them back to the bank. After that, the bank must liquidate the SPV or otherwise dispose of its shares in the SPV.

Special status of the Problem Assets Fund and SPV

The Problem Assets Fund and a bank’s SPV created under the Banking Amendments have special status. In particular, they are not required to obtain a banking license in connection with their acting as the lender under loans transferred to them by the banks. Further, the Fund and SPV are exempted from corporate income tax on income from their core operations from 1 January 2012 until 1 January 2018.

⁴ Law On Making Changes and Amendments to Certain Legislative Acts of the Republic of Kazakhstan on Regulation of Banking Activity and Financial Organizations in Furtherance of Minimization of Risks dated 28 December 2011 (the “Banking Amendments”)

Part IV. Case studies

The following case studies illustrate the practical implementation of the disposal of NPLs on Ukrainian and Russian market.

Chapter 4.1. Sale of SME NPLs to a third party Bank in Russian Federation

Case A

Sale of NPLs issued to Small and Medium Enterprises to a third party Bank

4.1.1. Purpose of the project

The purpose of the project (the “SME Program”) was to set out the mechanics, economics and legal arrangements involved in the purchase of sub-performing and/or non-performing loans granted to small and medium business enterprises (hereinafter “SME NPLs”). The Bank-Purchaser acquired the SME NPLs from a selected bank (hereinafter Originator) under a pilot transaction to help build a platform for refinancing a new SME Program.

The purpose of the pilot transaction was to gain experience of the processes involved, the operational implications, and the detailed practical capabilities of the Originator. After completion, the arrangements can be standardized and a scalable operational model can be developed (leading to the implementation of a full SME Program).

The objectives of the SME Program are to:

- foster the development of further SME lending in the Russian Federation;
- provide a template and standardized set of

lending criteria representing best practice that banks may then go on to adopt (to become eligible to participate in a Bank-Purchaser program);

- provide financing in a manner that is acceptable (and fundable) by the Central Bank and potentially (if markets improve) in the securitization market;
- design a structure that provides efficiencies to participating Originators by:
 - reducing their regulatory capital needs (which involves the Bank-Purchaser accepting some risks);
 - allows the Bank-Purchaser to take over the funding of the SME loans, relieving the Originator of this responsibility;
 - providing economic incentives (through the payment of servicing fees and the sharing of residual profitability in the SME lending with the Originator);
 - does not involve tax inefficiencies or tax risks for the Originator.

4.1.2. Project summary:

1. Originators are selected to participate in the program based upon the quality of their lending and standing within the Russian financial market. Such banks are then

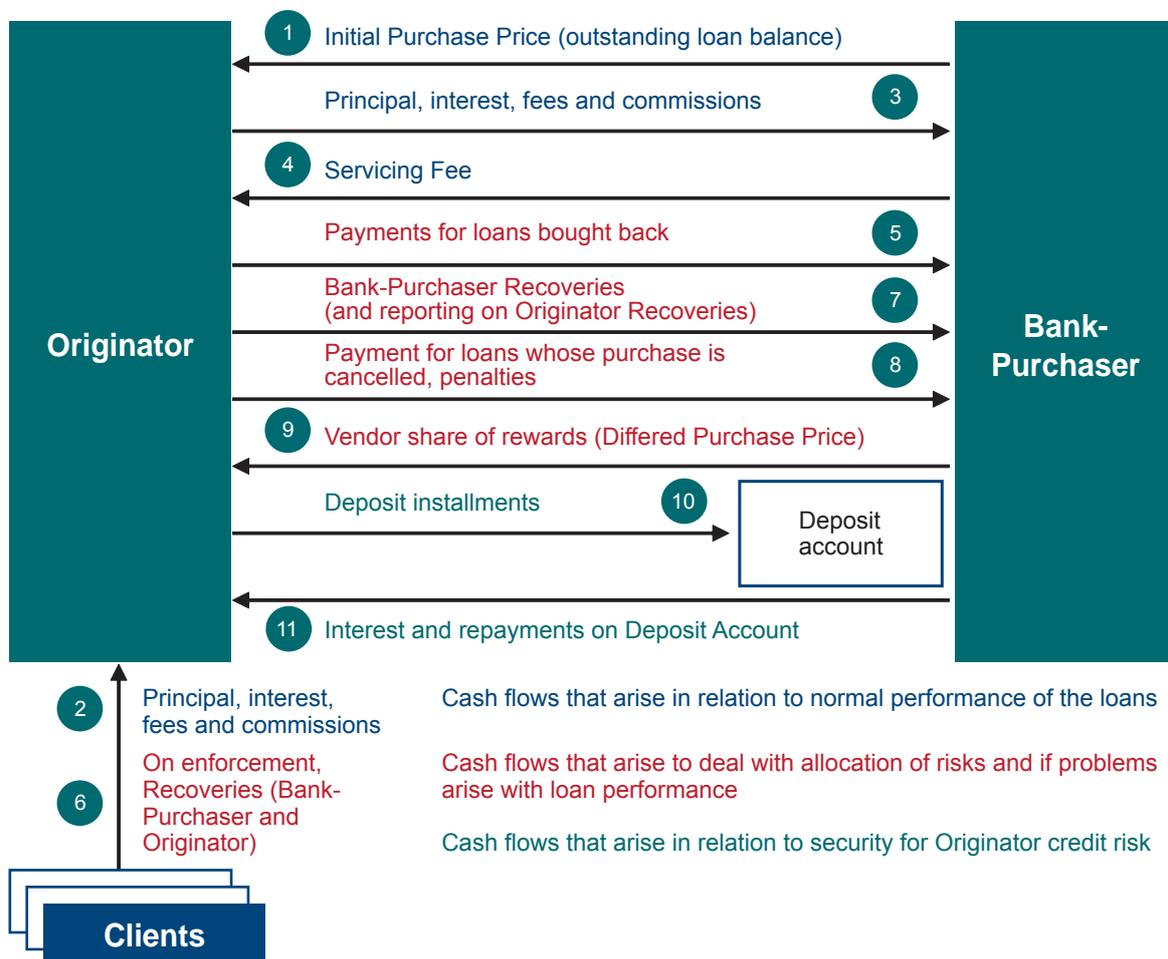
reviewed in terms of their lending standards, quality of servicing and quality of lending documentation.

2. Selected banks are then invited to sell SME NPLs to the Bank-Purchaser, either once or on a regular monthly basis. If the NPLs sold do not match the promised criteria, then the purchase of these particular loans from the Originator is cancelled. The Originator also assumes a limited buyback obligation in relation to uncollectable SME loans.
3. Purchased NPLs are owned by the Bank-Purchaser. Servicing of the loans is subcontracted back to the Originators. The Originators also retain responsibility for enforcing the NPLs on behalf of the Bank-Purchaser under a power of attorney. In certain circumstances, loans may be sold back to the Originator as well.
4. Each day, the Originator pays over cash received (collected) from the borrowers to the Bank-Purchaser.
5. Each month, the Bank-Purchaser will pay a servicing fee to the Originator. In addition, an assessment is made of the profitability of the NPLs (after deducting funding costs at an agreed rate, losses, and servicing fees). The surplus is then divided between the Originator and the Bank-Purchaser.

4.1.3. Deal Structure

The following diagrams set out the structure of arrangements to be put in place.

Cash Flows



There are some fundamental principles that are followed in designing the structure:

- To keep administration simple, all cash flows paid in relation to the SME loans owned by the Bank-Purchaser should be paid to the Bank-Purchaser. This means all fees, commissions, interest and principal receipts, recoveries (direct, from the realisation of a security and through formal enforcement procedures).
- When recoveries are made from borrowers to the Originator under NPLs bought back by the Originator (defined as “Originator Recoveries”), the Originator has to report the receipt of this cash to the Bank-Purchaser. The Bank-Purchaser keeps track of the Originator Recoveries for the purpose of calculating the allocation of income and loss.
- The Originator should pay over cash received every working day to the Bank-Purchaser (on a next day basis).
- Administratively, the Bank-Purchaser will divide up cash receipts into several types:
 - Principal (reflecting repayments of principal on the loans purchased) and receipts in respect of the principal balance of loans sold back to the Originator;
 - Income (interest, fees and commissions) and receipts in respect of any accrued income included in the sale price of NPLs sold back to the Originator;
 - Bank-Purchaser Principal Recoveries (principal received on NPLs not sold back to the Originator);
 - Bank-Purchaser Income Recoveries (income received on NPLs not sold back to the Originator) and;
 - Originator Recoveries (amounts received on NPLs after they have been transferred back to the Originator).
- The distinction between different types of income (i.e.: fees, commissions or interest) is not required to be maintained for the purpose of administering the arrangements

(it may be required for legal, accounting and / or regulatory reporting purposes – but this is subject to separate discussion).

The following basic cash flows arise within the structure:

1. When a NPL is acquired by the Bank-Purchaser, the Bank-Purchaser will pay the initial purchase price for the NPL which is based on the loan’s estimated market value calculated by an independent appraiser.
2. Thereafter, the Originator will collect amounts in respect of the NPL in the usual way (as the Originator remains the administrator and servicer of the loan).
3. The Originator is obliged to pay all amounts it then receives in respect of the NPL to the Bank-Purchaser. This includes principal repayments, and payments of interest fees and commission payments and any other amounts.
4. The Bank-Purchaser will keep track of the amounts that it receives in respect of NPLs purchased from the Originator. At the end of each month, the Bank-Purchaser will determine how much cash has been received, how much of the cash is principal and how much is income, and the Bank-Purchaser will account back to the Originator for a servicing fee based upon the NPL portfolio principal outstanding balance at the end of the month.
5. NPLs may continue to be owned by the Bank-Purchaser, or (subject to certain limits and restrictions) the Bank-Purchaser may sell NPLs back to the Originator.
6. NPLs will then, periodically, generate recoveries. These will also be collected by the Originator – either through regular enforcement processes or through formal actions (with the Originator acting on behalf of the Bank-Purchaser and under such guidance as the Bank-Purchaser chooses to provide pursuant to a power of attorney or on its own behalf regarding the loans bought back by the Originator).
7. For NPLs which still belong to the Bank-

Purchaser, all recoveries are the property of the Bank-Purchaser and the Originator will be obliged to pay all the amounts received to the Bank-Purchaser. Where recoveries arise on NPLs that are bought back by the Originator, the Originator will retain this cash but report its receipt to the Bank-Purchaser.

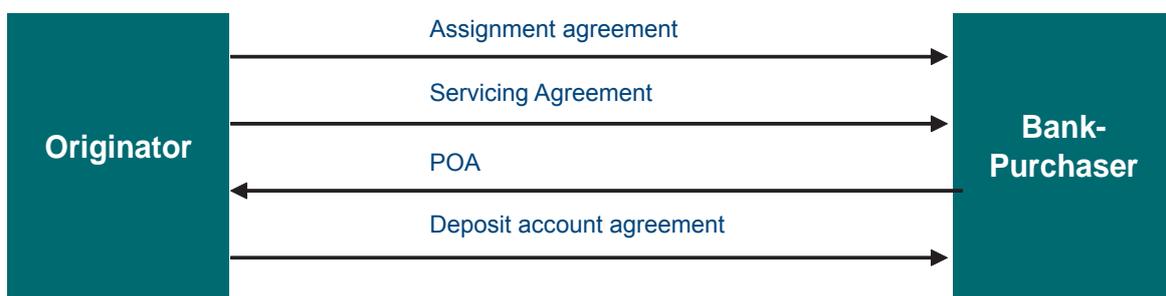
8. Occasionally, NPLs may be sold to the Bank-Purchaser which on further examination prove to be outside the loan eligibility criteria (although the intention is that this will not occur in practice). In that case, one of the following arise:
 - a. The Bank-Purchaser determines it is happy to retain the purchased loan and the arrangement continues.
 - b. If the Bank-Purchaser elects, it may cancel the purchase of the NPL and each party would be obliged to return all money received back to the other.
 - c. The Originator also compensates the Bank-Purchaser for its costs related to funding these NPLs since the time of sale.
9. Once funding costs, losses and other costs have been taken into account, the Bank-Purchaser may also make a further payment

to the Originator in relation to any income that remains, subject to certain conditions.

10. The Bank-Purchaser accepts a number of different kinds of credit risk relating to the Originator. A deposit account will be set up at the inception of the transaction to hold cash collateral from the Originator to mitigate these risks. The account may have a zero balance – or may have a large balance (and the amount requested to be held may change from time to time). These are matters which the Bank-Purchaser will monitor during the life of the transaction and will determine from time to time.
11. The Bank-Purchaser will pay interest on the balance of the deposit account and then repay these amounts at the end of the transaction or at such earlier time as the Bank-Purchaser determines.

Remark: The arrangements are proposed to be set up on a revolving basis under the umbrella of a facility amount to be granted by the Bank-Purchaser to the Originator in respect of loans that may be sold from time to time. The undrawn part of any facility is not committed on either side.

Principal Legal Relationships



The Originator enters into an Assignment agreement, whereby specific NPLs are transferred to the Bank-Purchaser.

- The Assignment agreement stipulates that the Bank-Purchaser can sell some NPLs back to the Originator to achieve a specific allocation of losses between the Bank-Purchaser and the Originator.
- The Assignment agreement also stipulates that if a NPL does not match a specific list of criteria (Loan Eligibility Criteria) as of the purchase date, the Bank-Purchaser may require the prior purchase of this particular loan to be purchased. The originator is obliged to pay a penalty to the Bank-Purchaser to compensate its costs related to the funding of these loans since the time of sale.

In addition, the Originator enters into a Servicing Agreement with the Bank-Purchaser, whereby it agrees to provide the administration and servicing for the specific loan portfolios that the Bank-Purchaser owns (originating from this particular Originator).

A Power of Attorney is executed authorizing and empowering the Originator to take all such actions on behalf of Bank-Purchaser as may be necessary to enforce and collect the sums owing under the loans.

The deposit account will be opened by the Originator at the Bank-Purchaser.

These documents are more thoroughly described in the next section.

4.1.4. Legal Discussion

This section (and the whole Case Study) does not provide any legal advice, but only provides a brief overview of the main legal implications of a hypothetical purchase of a portfolio of SME NPLs and the subsequent servicing of the SME NPLs by the Originator. A formal legal opinion should be obtained in order to assess and document the legal position of any planned or actual transaction.

The arrangements proposed are broadly conventional in respect of Russian Law. In particular, the pilot transaction is completed entirely within Russian Federation, with Russian parties and in accordance with Russian law. The main areas for debate and departure from mainstream areas of Russian law are:

- *Deferred Purchase Price.* Deferred purchase price arrangements are not clearly regulated in Russia – in other words, arrangements where the purchase price for the loans is paid over time rather than in full at inception. It is also unusual to contract for payments to be made in the future based upon a formula. It will be very important that the amount that is due on a certain date is fully capable of precise ascertainment (so that there is no doubt as to what is owed) or this may undermine the purchase itself. A detailed legal analysis of any deferred purchase price arrangement is required before concluding the particular assignment contract.
- *Assignment of commissions.* As a general principle, there are some concerns that certain commissions included in loan agreements may not be transferred to the Bank-Purchaser – for the reason that the services involved may be considered to be personal to the Originator, especially if their amount depends on a tariff rate of the Originator (the legal substance of these commissions is not quite clear under Russian legislation). This issue is subject to detailed consideration on a case-by-case basis.
- *Buyback of NPLs.* Current civil legislation does not set out clear rules to apply to the transfer of NPLs back to the originator (as this tends to negate the idea that a sale has occurred in the first place). This increases the legal risk that the Assignment agreement might be challenged in the future (and recategorised). In practice, however, this risk may be estimated as technical and remote.
- *Cash flow monitoring.* The transaction is a hybrid between a simple NPL purchase arrangement and a securitization. Consequently, it is necessary to ensure that one party (e.g. the Bank-Purchaser) monitors the cash flows that arise in connection with the purchased NPLs – and also perform the calculations necessary to give effect to the transaction documents. These arrangements must be incorporated into the Assignment agreement.
- In addition, the following legal issues should be taken into consideration:
 - *Procedure of assignment.* Russian Law provides for the possibility of informing the borrower about the change of creditor by sending a notice in writing. If such notice is not given, it is reasonable for the debtor to continue performing its obligations in favour of the original creditor. Therefore, if the debtor is not properly notified by the Originator the Bank-Purchaser, as the new creditor, bears the risk of any resulting adverse effects.

- *Assignment of rights under a pledge agreement.* According to Russian legislation, unless otherwise specified by contract, the rights of the initial creditor are passed to the new creditor to the extent and on those terms which existed at the time of the transfer of rights. In particular, rights which secure the fulfillment of an obligation are also transferred to the new creditor. Therefore, the Bank-Purchaser becomes a new pledgee. It should be noted, that replacing the pledgee under the mortgage agreement requires the performance of certain registration procedures as well as replacing the pledge under the pledge agreement of specialized transport facility (e.g. tractor, self-propelled vehicle) and other transport facilities.
- *Assignment of the right to insurance compensation.* There are certain rights that are not automatically transferred upon the assignment of collaterals – for example, the right to receive the proceeds of insurance policies where the Originator is the named beneficiary. The right to replace the beneficiary under the insurance policy belongs to the person insured. Russian Law does not contain any provisions making it possible to conclude that the beneficiary is entitled to voluntarily specify another person as the potential recipient of insurance compensation. Therefore, the pledgor, as a person insured, may notify the insurance company in writing the details of the replacement beneficiary. If such notification has not been issued, the insurance compensation will be paid to the first beneficiary, i.e. to the Originator (or the insurance agreement may be declared invalid, should it be proved that the Originator has lost its interest in securing the property after it stopped being the pledgee). If the arrangements are left as they currently are (i.e. do not provide an obligation on the pledgor to notify an insurant of the replacement of the payee in respect of any loss), the Bank-Purchaser will accept the credit risk on the Originator in respect of (taking the example of insurance) (a) claiming on a policy and (b) forwarding the value received. It is not thought to be worthwhile requiring the parties involved to enter into new agreements, given the fact that the actual importance of these types of rights is likely to be low in the commercial arrangements.
- *Deposit Account.* The Deposit Account will serve as a security for the Bank-Purchaser in relation to the continuing obligations of the Originator (in respect of the Servicing Agreement, potential claims arising under the Assignment agreement and in relation to obligations to repurchase any NPLs). The procedure by which the deposit works as security will be as follows: should the Originator fail to fulfill its obligations, the Deposit Account Agreement will be terminated by the Bank-Purchaser unilaterally; as a result, monetary funds from the Deposit Account will be transferred firstly to the bank account of the Originator and may then may be transferred from this bank account in favor of Bank-Purchaser without further authorization; upon termination of the Deposit Account Agreement, a new Deposit Account Agreement will be concluded between the Bank-Purchaser and the Originator for a smaller amount. It should be noted that in this situation, the Bank-Purchaser may face a risk that the Originator may refuse to conclude a new Deposit Account Agreement for the remaining amount and, therefore, the Bank-Purchaser may lose the security of the Deposit Account. From a civil law standpoint, the deposit account arrangements are not officially considered as a security obligation, thus such arrangements are likely to be considered as a “gentlemen’s agreement” rather than as an effective security for such an assignment transaction.
- *Bank Secrecy Disclosure and Private Data Protection.* The Originator shall also carefully consider the risks of unauthorized bank secrecy and private data disclosure involved in the assignment transaction (the standard contractual documentation should be thoroughly checked whether it provides debtors’ consent for bank secrecy/private data transfer to the purchaser).

4.1.5. Tax Discussion

This section does not provide a tax advice, rather briefly summarizes the major tax implications arising from a hypothetical sale of an SME NPL portfolio and the subsequent servicing of the SME NPLs by the Originator. A formal tax opinion should be obtained in order to assess and document the tax position of any planned or actual transaction.

The entire transaction takes place within the Russian Federation with Russian principals and under Russian Law. Only Russian taxes are therefore considered to be relevant to the arrangement. The major taxes affecting the transaction will be:

- Profit tax (principally in respect of taxable profits that are generated by one or other party);
- VAT (principally in respect of non-banking services to be provided).

There are some potential tax issues and risks to be addressed in the structure by each of the parties. The best way to assess the tax positions of both the Bank-Purchaser and the Originator (and the debtor) is to analyze the various cash flows and processes involved.

Debtor

Provided that the credit documentation remains unchanged it is not anticipated that the sale of the NPLs to the Bank-Purchaser by the Originator will have any impact on the debtor's tax position, whether this is in respect of the services that are received by the debtor due to servicing of the SME NPLs or the deductibility of interest on the SME NPL.

Originator

The sale of the SME NPL portfolio to the Bank-Purchaser should generally not give rise to taxable profit if the loan portfolio is sold at a price equal to the outstanding value of the loans (i.e. outstanding principal plus accrued interest and commissions). However, if the Purchase Price is more than zero, it should be subject to profits tax.

The treatment of any NPL sold to the Bank-Purchaser and then subsequently repurchased should be the same as for any NPL that is originated. The repurchase of the SME NPL by the Originator should not give rise to any immediate tax consequences as it is expected that the repurchase will be executed at a price equal to the outstanding value of the SME NPL (outstanding principal plus accrued interest and commissions).

The servicing fee to be received from the Bank-Purchaser for the servicing of the SME NPL portfolio should also be taxed as they are accrued in accordance with the terms of the Servicing Agreement. The servicing fee will be subject to VAT. The level of the servicing fee should be set according to transfer pricing rules at the market rate - 1% per annum on the outstanding balance of the SME portfolio from time to time is the usual level; VAT will be 18%.

Bank-Purchaser

The Bank-Purchaser will generally be taxed on the income received from the SME NPLs as it is accrued according to Russian legislation.

There is a risk that payments of the purchase price to the Originator will not be deductible for profit tax purposes, giving rise to additional tax cost.

The sale of the SME NPL back to the Originator under certain conditions should not give rise to additional taxable profits for the Bank-Purchaser provided that the repurchase price is equal to the outstanding value of the SME NPL (outstanding principal plus accrued interest and commissions). However, the loss incurred from such sale of the SME NPL back to the Originator (due to the payment of the Purchase Price) will not be deductible for the Bank-Purchaser.

The cancellation of the sale of the SME NPLs should not trigger any profits tax consequences for both the Bank-Purchaser and the Originator.

In principle, the servicing fee paid to the Originator should be tax deductible for the Bank-Purchaser.

Chapter 4.2. Sale of retail via off-shore SPV in Ukraine

Case B

Sale of retail NPLs via off-shore SPV

Due to growing level of NPLs and correspondingly increased pressure over the capital adequacy the management decided to transfer its non-performing loans off the balance sheet.

Once this had been concluded, the next step was a selection of the sale option and market screening to prepare an extensive list of potential buyers.

The Bank decided to engage professional advisors in selling options analysis and the transaction support for legal, tax and financial matters.

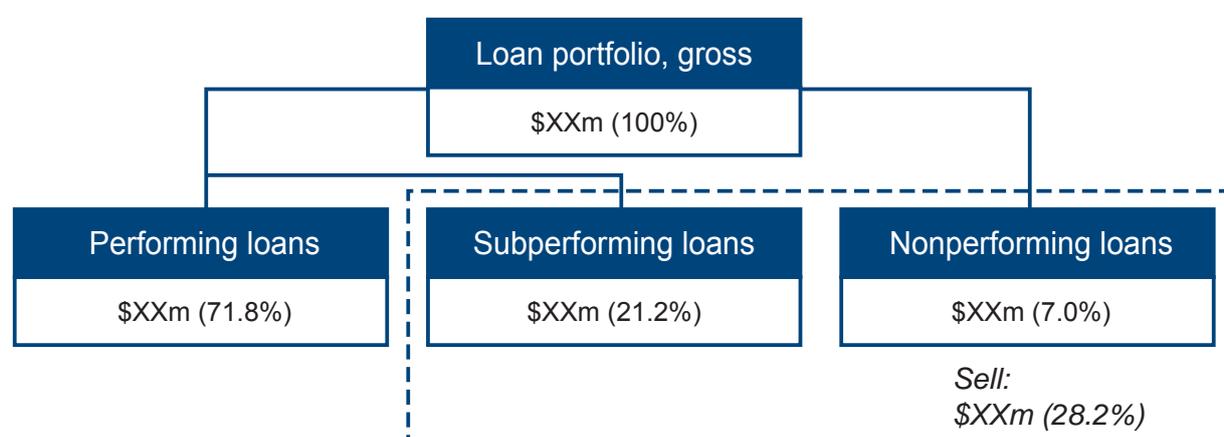
Advisors had to check completeness and quality of the loan files and prepare a draft sale purchase agreement for effective subsequent discussion of certain details.

Step 1. Portfolio Identification

Within the framework of the fundamental decision to choose the right option, the first step is to identify the portfolio.

As of the review date the Bank's loan portfolio was represented by consumer unsecured loans only.

The Bank divided the portfolio to: (1) performing, (2) sub-performing loans (1-90 DPD), and (3) non-performing loans (90+ DPD).



Step 2. Check the in-house effects

Loan quality is the essential factor due to its direct influence on the purchase price and a bank's financials. A rule of thumb exists: the more up-to-date and extensive data (i.e. the better the quality), the higher the purchase price.

Everything which is not clear from the data tape produced can lead to deductions from the purchase price by the investor.

In addition to investigation of tax implications of the transaction a bank should check effect of the transaction on a compliance with financial ratios set by the Central bank.

Under this case extensive financial model was developed which showed separately effect of each of 4 proposed options over the bank's financials and financial ratios imposed by the NBU. The affected ratios were:

- Regulatory capital (N1) and its adequacy (N2) due to changes in risk-weighted assets, loss/ profit from disposal, changes in currency position and in gap between assets and liabilities maturing in 1+ year;
- Adequacy of total assets (N3) due to decrease of total assets and loss/ profit from disposal;
- Liquidity ratios (N4-N6) due to changes in assets and liabilities maturing in the next 1, 3 and 12 months;
- Currency position (L13).

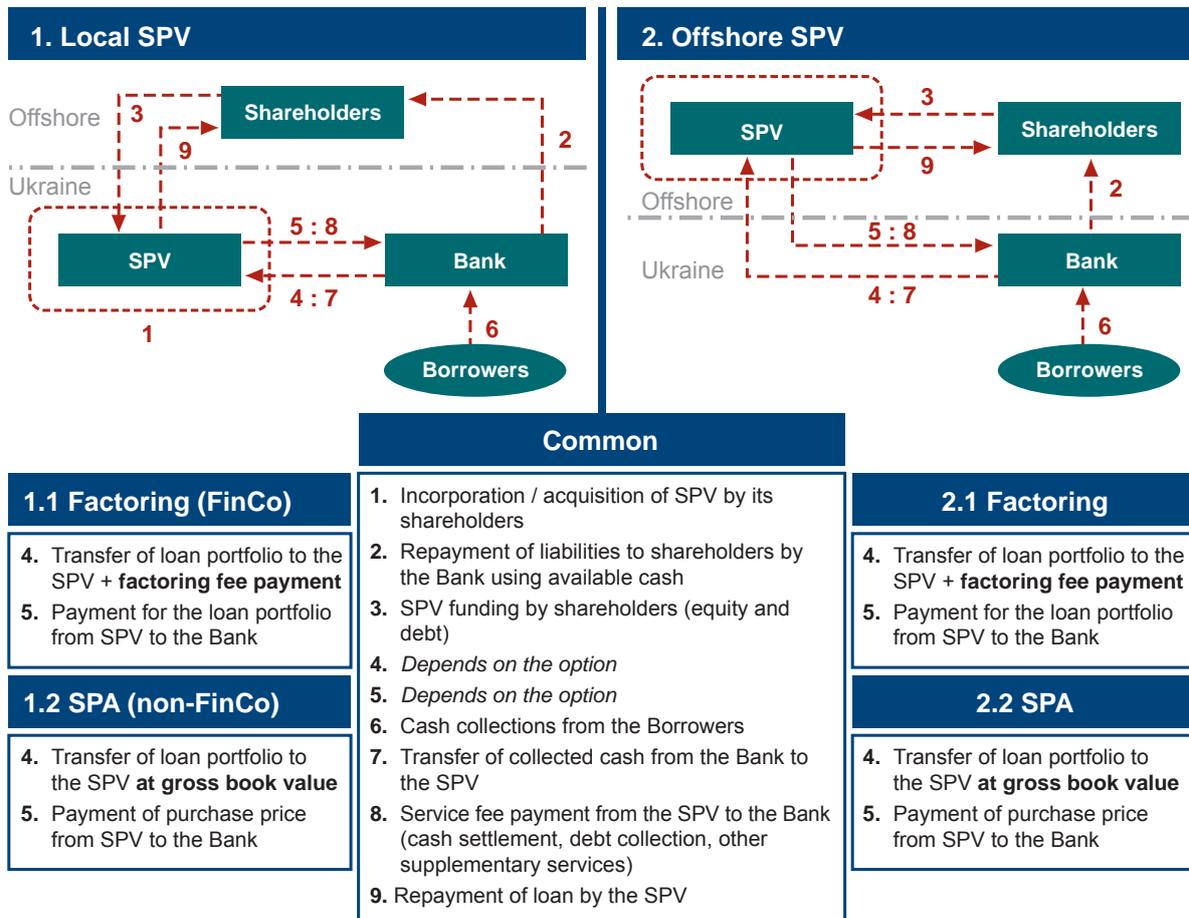
this process phase. The decision was based on consideration of pros and cons of the transaction and recommendations set forth by either in-house specialists or professional advisors.

After the full scope due diligence advisors proposed 4 options to the Bank (see below).

The Management decided to dispose all non-performing and sub-performing loans as well as a part of performing portfolio to increase investor attractiveness of the portfolio. The schedule for the portfolio transfer to the SPV and then to a third-party collector was suggested by advisors based on available liquidity and the best estimated effect on regulatory ratios.

Step 3. Portfolio clustering and Board decision

A final Executive Board decision concluded



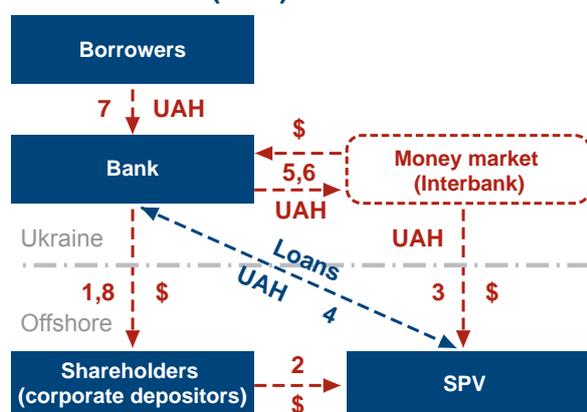
Portfolio sales by bank to SPV and consequently by SPV to third-party collector firms:

\$k	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	10M Year 1	Year 2	Year 3
Sale of portfolio by bank to SPV at nominal (gross) value													
Bucket 1 - no payment defaults	-	-	-	-	-	-	-	-	-	(34 917)	(34 917)	(31 085)	-
Bucket 2 - 0-30 days delay	-	-	-	-	-	-	-	-	-	(4 160)	(4 160)	(3 493)	-
Bucket 3 - 31-60 days delay	-	-	-	-	-	-	-	-	-	(2 588)	(2 588)	(2 341)	-
Bucket 4 - 61-90 days delay	-	-	-	-	-	-	-	-	-	(2 247)	(2 247)	(2 025)	-
Bucket 5 - 91-120 days delay	-	(11 087)	(8 372)	(7 663)	(7 030)	(6 573)	(6 003)	(5 453)	(4 944)	(4 480)	(61 605)	(1 944)	-
Bucket 6 - 121-150 days delay	-	(10 608)	-	-	-	-	-	-	-	-	(10 608)	-	-
Bucket 7 - 151-180 days delay	-	(6 061)	-	-	-	-	-	-	-	-	(6 061)	-	-
Bucket 8 - 181-210 days delay	-	(492)	-	-	-	-	-	-	-	-	(492)	-	-
Bucket 9 - 211-240 days delay	-	(438)	-	-	-	-	-	-	-	-	(438)	-	-
Bucket 10 - more than 240 days delay	-	(2 726)	-	-	-	-	-	-	-	-	(2 726)	-	-
Total	-	(31 412)	(8 372)	(7 663)	(7 030)	(6 573)	(6 003)	(5 453)	(4 944)	(48 392)	(125 842)	(40 888)	-
Sale of portfolio by SPV to third parties													
Bucket 1 - no payment defaults	-	-	-	-	-	-	-	-	-	-	-	-	-
Bucket 2 - 0-30 days delay	-	-	-	-	-	-	-	-	-	-	-	-	-
Bucket 3 - 31-60 days delay	-	-	-	-	-	-	-	-	-	-	-	-	-
Bucket 4 - 61-90 days delay	-	-	-	-	-	-	-	-	-	-	-	-	-
Bucket 5 - 91-120 days delay	-	(11 087)	(8 372)	(7 663)	(7 030)	(6 573)	(6 003)	(5 453)	(4 944)	(4 480)	(61 605)	(17 747)	(7 114)
Bucket 6 - 121-150 days delay	-	(10 608)	-	-	-	-	-	-	-	-	(10 608)	-	-
Bucket 7 - 151-180 days delay	-	(6 061)	-	-	-	-	-	-	-	-	(6 061)	-	-
Bucket 8 - 181-210 days delay	-	(492)	-	-	-	-	-	-	-	-	(492)	-	-
Bucket 9 - 211-240 days delay	-	(438)	-	-	-	-	-	-	-	-	(438)	-	-
Bucket 10 - more than 240 days delay	-	(2 726)	-	-	-	-	-	-	-	-	(2 726)	-	-
Total	-	(31 412)	(8 372)	(7 663)	(7 030)	(6 573)	(6 003)	(5 453)	(4 944)	(4 480)	(81 931)	(17 747)	(7 114)

Step 4. Options analysis

Based on advantages and disadvantages for each option *off-shore SPV* scenario was recommended by the consultants.

Offshore SPV (SPA)



1. Repayment of USD-denominated funding from the shareholder using available USD-denominated liquidity (at Nostro account).
2. Shareholder disbursed USD-denominated

loan to off-shore SPV (Cyprus-based).

3. SPV exchanged USD-denominated funds into UAH at Ukrainian money (interbank) market.
4. SPV purchased loan portfolio from the Bank for UAH-denominated consideration to maintain the Bank's currency position.
5. Bank disbursed interbank loan in UAH, and
6. Attracted interbank loan in \$ (i.e. money swap).
7. Repayment of remaining part of UAH loan portfolio by borrowers to SPV, with the Bank acting as an agent.
8. ...Repeat from No 1. - Repayment of \$ funding from shareholder..
9. Until the new SPV becomes operational, which may take 2 months, the existing Cyprus SPVs may temporarily be used.

Upon removal of NPLs the Bank improved its compliance with NBU ratios as it avoided additional LLP charge due to worsening of delinquent loan book. 90+ DPD loans were subsequently re-sold to a third party collector with upfront commission of 1% of par value complemented with profit-sharing arrangement (transfer of 50-75% of collected proceeds to the Bank with estimated recovery of 20-25% of par value of NPLs).

The SPA between the Bank and SPV presumed the possibility of channeling the gains from the profit-sharing arrangement with a third party collector to the Bank.

Step 5. SPV registration/transferring (tax and legal issues)

Tax issues

Due to pricing of the transaction at par, the Bank had to recognize full release of LLPs into taxable income. However, due to significant amount of accumulated tax losses, the release of LLPs did not have cash tax effect on the Bank.

Deferred pricing mechanism implying compensation for uncollected amounts by the Bank to SPV was considered by the Bank to transfer the losses from SPV. This could allow the Bank to enjoy tax deductible expenses in case it re-established profitable and expanding activity in the foreseeable future. However, there was a risk that the deductibility of such losses for tax purposes by the Bank could be challenged by the tax authorities. Therefore, this option was finally rejected.

Legal issues

The Bank had external borrowings from a major international financial institution with restrictive covenants as to disposal of the Bank's assets. It therefore was necessary to receive pre-approval from the international

financial institution for the sale of NPLs off the Bank's balance sheet. Due to overpricing of the portfolio, the approval was obtained in relatively short term.

During the execution of the Transaction, the NBU introduced changes to the currency control legislation whereby assignment of loans to foreign investors had to be registered with the NBU on a loan-by-loan basis. Since the Bank's portfolio was comprised of relatively small consumer loans, this became a deal-breaker and the Bank had to change the transaction structure in favour of a local SPV (FinCo).

Also, the Bank filed for a ruling to the NCFSM in respect of the possibility to purchase UAH-denominated loans from the Bank by an offshore SPV through an investment account in Ukraine. After the Bank received unfavourable ruling from the NBU, it was decided to unwind the sale which was executed just before receipt of the ruling.

Step 6. Closing

The transaction was successfully executed due to early implementation of back-up scenario involving local FinCo.

Appropriate hedging strategy was developed by the Bank to manage the risk of devaluation of UAH loan portfolio, which was effectively financed by USD funding as well as to meet the currency position requirements. Non-deliverable forward can be considered, however, this instrument is expensive.

Step 7. Post-sale servicing (collection) of loans

Only general manager and chief accountant were employed by FinCo, while the major part of day-to-day operating activities of FinCo was outsourced to the Bank and external service providers. As a result the FinCo did not require additional full-time employees for running. All strategic decisions were made by FinCo's

general manager based on analysis and other input information received from external service providers including the Bank.

There was an arrangement between the Bank and the FinCo for post-sale servicing of the loans as well as provision of other services related to enforcement of collaterals.

Once NPLs were transferred, FinCo started marketing loans to potential buyers. After negotiations were successful, FinCo re-sold the NPLs to a third-party collector earning an upfront commission fee and additional cash flows from subsequent profit-sharing arrangement.

Appendices

Appendix 1

Document Inventory for Corporate Loans (to the extent available)

Information Type	Document Type
Loan Documents	Loan Application
Loan Documents	Loan Committee Approval
Loan Documents	Commitment Letter
Loan Documents	Loan Agreement (or equivalent)
Loan Documents	Syndication Agreement
Loan Documents	Intercreditor Agreement
Loan Documents	Note
Loan Documents	Participations
Loan Documents	. Participation Agreement
Loan Documents	. Participation Certificate
Loan Documents	. Opinion of Borrower's Counsel
Loan Documents	. Opinion of Guarantor's Counsel
Loan Documents	Novation Agreement
Loan Documents	Latest internal credit report
Loan Documents	Monthly / Quarterly report on borrower
Loan Documents	Covenant monitoring sheet
Loan Documents	Monthly loan performance report

Information Type	Document Type
Borrower Details	Borrower
Borrower Details	. Audited Financial Statement
Borrower Details	. Budget for 2010/2011
Borrower Details	. Quarterly/monthly management accounts
Borrower Details	. Budget to actual variance analysis
Borrower Details	. Management Business Plan
Borrower Details	. Group / legal structure
Borrower Details	. Management structure
Borrower Details	. Tax Return
Borrower Details	. External Credit Report
Borrower Details	. External due diligence report
Borrower Details	. Article of Incorporation
Borrower Details	. Bylaws
Borrower Details	. Certificate of Incorporation
Borrower Details	. Incumbency Certificate
Borrower Details	. Corporate Resolution to Borrow
Borrower Details	. Certificate of Goodstanding
Borrower Details	. Partnership/JV/Trust Agreement
Borrower Details	. Partnership Certificate
Borrower Details	. Borrower correspondence
Borrower Details	. Other
Guarantor Details	Guarantor
Guarantor Details	. Certificate Resolution
Guarantor Details	. Financial Statement
Guarantor Details	. Tax Return
Guarantor Details	. Credit Report
Guarantor Details	. Guarantor correspondence
Guarantor Details	. Other

Information Type	Document Type
Legal Details	Notice of Default
Legal Details	Demand / Acceleration Letter
Legal Details	Notice of Foreclosure
Legal Details	Bankruptcy Documentation
Legal Details	Litigation Documentation

Information Type	Document Type
Collateral Details	Security Agreement
Collateral Details	Mortgage / Deed of Trust
Collateral Details	Mortgage / Deed of Trust Modifications
Collateral Details	Title Insurance policy
Collateral Details	Attorney Title Opinion
Collateral Details	Abstract of Title
Collateral Details	. Title Commitment
Collateral Details	. Loan Settlement Statement
Collateral Details	Ground Lease
Collateral Details	. Recorded Memorandum of
Collateral Details	Ground Lease
Collateral Details	. Leasehold Subordination Agreement
Collateral Details	Original Appraisal
Collateral Details	Updated Appraisal
Collateral Details	Property Inspection
Collateral Details	Survey
Collateral Details	Evidence of Zoning Compliance
Collateral Details	Certificate of Occupancy
Collateral Details	Flood Plain Certificate
Collateral Details	Rent Roll
Collateral Details	Operating Statement
Collateral Details	Tenant Leases
Collateral Details	Tenant Estoppels
Collateral Details	Subordination, Nondisturbance and Attornment Agreement
Collateral Details	Property Management Agreement
Collateral Details	Phase I Environmental Report
Collateral Details	Phase II Environmental Report
Collateral Details	Engineering Report
Collateral Details	Asbestos Report
Collateral Details	Hazardous Substance Indemnity
Collateral Details	Other Environmental Reports
Collateral Details	Insurance
Collateral Details	. Harzard Insurance Policy / Certificate
Collateral Details	. General Liability Policy / Certificate
Collateral Details	. Other

Document Inventory for Consumer Loans

Information Type	Document Type
Loan Documents	Loan Application
Loan Documents	Loan Approval
Loan Documents	Loan Agreement (or equivalent)
Loan Documents	Latest internal credit report
Loan Documents	Monthly / Quarterly report on borrower
Loan Documents	Amended loan agreement (if applicable)

Information Type	Document Type
Legal Details	Notice of Default
Legal Details	Demand / Acceleration Letter
Legal Details	Notice of Foreclosure
Legal Details	Bankruptcy Documentation
Legal Details	Litigation Documentation

Information Type	Document Type
Borrower Details	Borrower
Borrower Details	. Borrower ID documents (i.e. passport/driving license etc)
Borrower Details	. Borrower proof of address
Borrower Details	. Solicitor letter confirming borrower details
Borrower Details	. Credit rating report
Borrower Details	. Personal net worth statement
Borrower Details	. Bank details
Borrower Details	. Borrower correspondence
Borrower Details	. Other
Guarantor Details	Guarantor
Guarantor Details	. Guarantor ID documents (i.e. passport/driving license etc)
Guarantor Details	. Guarantor declaration
Guarantor Details	. Guarantor proof of address
Guarantor Details	. Guarantor proof of funds
Guarantor Details	. Guarantor correspondence
Guarantor Details	. Other

Information Type	Document Type
Collateral Details	Security Agreement
Collateral Details	Mortgage / Deed of Trust
Collateral Details	Mortgage / Deed of Trust Modifications
Collateral Details	Title Insurance policy
Collateral Details	Attorney Title Opinion
Collateral Details	Abstract of Title
Collateral Details	. Title Commitment
Collateral Details	. Loan Settlement Statement
Collateral Details	Ground Lease
Collateral Details	. Recorded Memorandum of Ground Lease
Collateral Details	. Leasehold Subordination Agreement
Collateral Details	Original Appraisal
Collateral Details	Updated Appraisal
Collateral Details	Property Inspection
Collateral Details	Survey
Collateral Details	Evidence of Zoning Compliance
Collateral Details	Certificate of Occupancy
Collateral Details	Flood Plain Certificate
Collateral Details	Rent Roll
Collateral Details	Operating Statement
Collateral Details	Tenant Leases
Collateral Details	Tenant Estoppels
Collateral Details	Subordination, Nondisturbance and Attornment Agreement
Collateral Details	Property Management Agreement
Collateral Details	Phase I Environmental Report
Collateral Details	Phase II Environmental Report
Collateral Details	Engineering Report
Collateral Details	Asbestos Report
Collateral Details	Hazardous Substance Indemnity
Collateral Details	Other Environmental Reports
Collateral Details	Insurance
Collateral Details	. Harzard Insurance Policy / Certificate
Collateral Details	. General Liability Policy / Certificate
Collateral Details	. Other

Corporate Borrowers Key Data Fields: Secured

Information Type	Key Data Field
Collateral-Real Estate	Collateral No.
Collateral-Real Estate	Collateral Type
Collateral-Real Estate	Land Location Country / City
Collateral-Real Estate	Land Location-Village/Township/City/District
Collateral-Real Estate	Land Location-Section/Portion
Collateral-Real Estate	Land Location-Land Lot Number
Collateral-Real Estate	Zoning and Use of Land
Collateral-Real Estate	Land Owner
Collateral-Real Estate	Land (m ²)
Collateral-Real Estate	Percentage of Holding Land
Collateral-Real Estate	Holding Land Area (m ²)
Collateral-Real Estate	Former Transfer Date of Land(YYYY/MM/DD)
Collateral-Real Estate	GAV of Former Transfer (\$)
Collateral-Real Estate	Current GAV (\$)
Collateral-Real Estate	Building Location - City / Country
Collateral-Real Estate	Building Location-Village/Township/City/District
Collateral-Real Estate	Building Location-Building Lot Number
Collateral-Real Estate	Building Location-Building Lot Number of Public Facility
Collateral-Real Estate	Building Address
Collateral-Real Estate	Building Structure
Collateral-Real Estate	Total Stories of The Building
Collateral-Real Estate	The # Level of The Building
Collateral-Real Estate	Building Owner
Collateral-Real Estate	Main Buildings(m ²)A1
Collateral-Real Estate	Annex(m ²)B1
Collateral-Real Estate	Public Facility (m ²)C1
Collateral-Real Estate	Total Buildings(m ²)A1+B1+C1
Collateral-Real Estate	Number of Parking Space
Collateral-Real Estate	Elevator Parking Space / Parking Space
Collateral-Real Estate	Shared Collateral
Collateral-Real Estate	Lien Position
Collateral-Real Estate	Lien Amount (\$)
Collateral-Real Estate	Date of Lien Position Registration(YYYY/MM/DD)
Collateral-Real Estate	Certificate Number of Pledge Right
Collateral-Real Estate	1st Lien Holder
Collateral-Real Estate	1st Lien Amount (\$)
Collateral-Real Estate	2nd Lien Holder
Collateral-Real Estate	2nd Lien Amount (\$)
Collateral-Real Estate	3rd Lien Holder
Collateral-Real Estate	3rd Lien Amount (\$)
Collateral-Real Estate	4th Lien Holder
Collateral-Real Estate	4th Lien Amount (\$)
Collateral-Real Estate	5th Lien Holder
Collateral-Real Estate	5th Lien Amount (\$)
Collateral-Real Estate	Other
Collateral-Real Estate	Action off before Cut off Date
Collateral-Real Estate	Latest Auction Date as of Cut off Date(YYYY/MM/DD)
Collateral-Real Estate	# of Auction
Collateral-Real Estate	Reserve Price (\$)

Collateral-Real Estate	Bid Price (\$)
Collateral-Real Estate	Distribution Proceeds Receivable according to Court Distribution Table (\$)
Collateral-Real Estate	Insurance Type
Collateral-Real Estate	Claim (\$)
Collateral-Real Estate	Insurance Expiration Date(YYYY/MM/DD)
Collateral-Real Estate	Insurance Company
Collateral-Real Estate	Collateral Current Status
Collateral-Real Estate	Date of Registration of Lease(YYYY/MM/DD)
Collateral-Real Estate	Lease Origination Date(YYYY/MM/DD)
Collateral-Real Estate	Lease Expiration Date(YYYY/MM/DD)
Collateral-Real Estate	Tenant
Collateral-Real Estate	Rent/Per Month
Collateral-Real Estate	Rent Collected by The Bank
Collateral-Real Estate	Latest Appraisal Value (\$)
Collateral-Real Estate	Latest Appraisal Date(YYYY/MM/DD)
Collateral-Real Estate	Other key issues

Information Type	Key Data Field
Collateral-Stocks	Name
Collateral-Stocks	Code
Collateral-Stocks	Legal / Equitable charge
Collateral-Stocks	Shares
Collateral-Stocks	Issuer Status
Collateral-Stocks	Restricted Stock
Collateral-Stocks	Operation Status
Collateral-Stocks	Industry Code
Collateral-Stocks	Market Value/Net Asset Value (\$)
Collateral-Machinery and Other	Manufacturer/Type
Collateral-Machinery and Other	Style
Collateral-Machinery and Other	Purchase Date (YYYY/MM/DD)
Collateral-Machinery and Other	Purchase Price (\$)
Collateral-Machinery and Other	Currency of security
Collateral-Machinery and Other	Useful Life
Collateral-Machinery and Other	Operating Assets
Collateral-Machinery and Other	Do other banks have security/collateral over the same asset
Collateral-Machinery and Other	Lien Position of The Bank
Collateral-Machinery and Other	Lien Amount of The Bank (\$)
Collateral-Machinery and Other	Latest Appraisal Value (\$)
Collateral-Machinery and Other	Appraisal Date (YYYY/MM/DD)
Collateral-Machinery and Other	Insurance Type
Collateral-Machinery and Other	Claim (\$)
Collateral-Machinery and Other	Insurance Expiration Date(YYYY/MM/DD)
Collateral-Machinery and Other	Insurance Company
Collateral-Machinery and Other	Market value held per bank
Collateral-Machinery and Other	Market value per last valuation
Collateral-Machinery and Other	Date of last valuation
Collateral-Machinery and Other	Provider of last valuation (internal, expert's name, etc)
Collateral-Machinery and Other	Is collateral value sufficient to cover debt? (Y/N)

Information Type	Key Data Field
Status of Provisional Seizure	Counterparty of Provisional Seizure
Status of Provisional Seizure	Jurisdiction and Case No.
Status of Provisional Seizure	Date of Ruling for Provisional Seizure(YYYY/MM/DD)
Status of Provisional Seizure	Compulsory Execution of Provisional Seizure (Case No./N)
Status of Provisional Seizure	Execution Fee (\$)
Status of Provisional Seizure	Court Deposit Type
Status of Provisional Seizure	Court Deposit Amount (\$)
Status of Provisional Seizure	Court Deposit Retrieved
Status of Provisional Injunction	Counterparty of Provisional Injunction
Status of Provisional Injunction	Jurisdiction and Case No.
Status of Provisional Injunction	Date of Ruling for Provisional Injunction(YYYY/MM/DD)
Status of Provisional Injunction	Compulsory Execution of Provisional Injunction (Case No./N)
Status of Provisional Injunction	Execution Fee (\$)
Status of Provisional Injunction	Court Deposit Type
Status of Provisional Injunction	Court Deposit Amount (\$)
Status of Provisional Injunction	Court Deposit Retrieved
Status of Final and Irrevocable Judgment	Jurisdiction and Case No.
Status of Final and Irrevocable Judgment	Counterparty of Final and Irrevocable Judgment
Status of Final and Irrevocable Judgment	Date the Judgment Became Final and Irrevocable(YYYY/MM/DD)
Status of Final and Irrevocable Judgment	Certificate of Final and Irrevocable Judgment
Status of Final and Irrevocable Judgment	Principal Amount of Final and Irrevocable Judgment (\$)
Court Settlement/Court Mediation	Counterparty of Court Settlement/Court Mediation
Court Settlement/Court Mediation	Date of Settlement/Mediation(YYYY/MM/DD)
Court Settlement/Court Mediation	Principal Amount of Settlement/Mediation (\$)
Ongoing Litigation	Jurisdiction and Case No.
Ongoing Litigation	Counterparty of Litigation
Ongoing Litigation	Claim Amount (Principal) (\$)
Payment Order	Jurisdiction and Case No.
Payment Order	Counterparty of Payment Order
Payment Order	Date of Issue(YYYY/MM/DD)
Payment Order	Principal Amount of Payment Order
Payment Order	Certificate of Irrevocable Payment Order
Ruling of Execution of Promissory Note	Jurisdiction and Case No.
Ruling of Execution of Promissory Note	Counterparty of Ruling of Execution of Promissory Note
Ruling of Execution of Promissory Note	Date of Issue(YYYY/MM/DD)
Ruling of Execution of Promissory Note	Claim Amount of Ruling of Execution of Promissory Note (Principal)
Ruling of Execution of Promissory Note	Certificate of Irrevocable Ruling of Execution of Promissory Note
Foreclosure Ruling	Jurisdiction and Case No.
Foreclosure Ruling	Counterparty of Foreclosure Ruling
Foreclosure Ruling	Date of Issue(YYYY/MM/DD)
Foreclosure Ruling	Collateral No.
Foreclosure Ruling	Certificate of Irrevocable Foreclosure Ruling
Status	Counterparty of Compulsory Execution
Status	Jurisdiction and Case No.
Status	Enforcement Title
Status	Principal Amount of Compulsory Execution (\$)
Status	Executed Collateral Number
Status	Execution Fee (\$)
Status	Date of Certificate of Indebtedness(YYYY/MM/DD)
Status	Principal Amount of Certificate of Indebtedness (\$)
Reorganization Proceedings	Applicant
Reorganization Proceedings	Date of Application(YYYY/MM/DD)
Reorganization Proceedings	Jurisdiction and Case No.
Reorganization Proceedings	Date of Ruling(YYYY/MM/DD)
Reorganization Proceedings	Ruling (Grant/Overrule)
Reorganization Proceedings	Stay Order
Reorganization Proceedings	Claims Reported in Reorganization
Reorganization Proceedings	Reorganization Plan Submitted
Bankruptcy Procedure	Applicant
Bankruptcy Procedure	Date of Application(YYYY/MM/DD)
Bankruptcy Procedure	Jurisdiction and Case No.
Bankruptcy Procedure	Date of Ruling(YYYY/MM/DD)
Bankruptcy Procedure	Ruling (Grant/Overrule)
Bankruptcy Procedure	Obligatory Claims Provable in Bankruptcy

Consumer / Personal Borrower Key Data Fields: Secured

Information Type	Key Data Field
Borrower Data	Borrower Running No.
Borrower Data	Portfolio
Borrower Data	Group ID
Borrower Data	Borrower ID
Borrower Data	Borrower Name
Borrower Data	Borrower Street Address
Borrower Data	Borrower Street Number
Borrower Data	Borrower Postcode
Borrower Data	Borrower City
Borrower Data	Borrower Province
Borrower Data	Borrower Income p.a.
Borrower Data	Complementary info on borrower address
Borrower Data	Fixed / Mobile Phone
Borrower Data	Phone Number
Borrower Data	Extension Phone Number
Borrower Data	Address Classification (Home / Business)
Borrower Data	Borrower Birth Date
Borrower Data	Borrower Age
Borrower Data	Borrower Gender
Borrower Data	Borrower Marital Status
Borrower Data	Borrower Industry / Profession
Borrower Data	Borrower Income p.a.
Borrower Data	Borrower Co-operative (Y/N)
Borrower Data	Power of Attorney (PoA)
Borrower Data	PoA received date
Borrower Data	Solvency Status
Borrower Data	Solvency Status Date
Borrower Data	Bank internal risk classification
Borrower Data	Previous 12 Months Actual Collections
Borrower Data	First Unpaid Date
Borrower Data	Last Payment Date
Borrower Data	Future gross collections expected
Borrower Data	% recovered during collection process

Information Type	Key Data Field
Security Details	Security Running Number
Security Details	Group ID
Security Details	Borrower ID
Security Details	Security ID
Security Details	Type of Additional Security
Security Details	Detailed Type of Additional Security
Security Details	Nominal Value of Additional Security
Security Details	Date of valuation
Security Details	Bank Assigned Market Value
Security Details	If Guarantee, the Solvency Status of the Guarantor
Security Details	Legal Form of the Guarantor
Security Details	Name of the Guarantor
Security Details	If Guarantee, the City of the Guarantor
Security Details	If Life Insurance, the Residual Return Value of the Policy?
Security Details	Date of the Residual Return?
Security Details	Additional Comments

Information Type	Key Data Field
Loan Data	Loan ID
Loan Data	Loan Type (Claim Type)
Loan Data	Loan Classification
Loan Data	Loan Purpose
Loan Data	Loan Currency
Loan Data	Original Loan Amount
Loan Data	Original Loan Date
Loan Data	Loan Cancelled / Terminated?
Loan Data	Termination/ Cancellation Date?
Loan Data	Original Legal Claim
Loan Data	Origination Date
Loan Data	Total Exposure
Loan Data	Open Exposure
Loan Data	Interest Arrears
Loan Data	Cost Arrears
Loan Data	Principal Arrears
Loan Data	Current Total Legal Claim
Loan Data	Write-down Date
Loan Data	Date of Default
Loan Data	Days of Default
Loan Data	Judicial Process
Loan Data	Latest Legal Action Step
Loan Data	Latest Legal Action Date
Loan Data	Last Date of Contact with Borrower
Loan Data	Settlement Offer From/To Borrower Y/N
Loan Data	Settlement Offer Date
Loan Data	Rescheduling Agreeemnt in Place Y/N
Loan Data	Workout Status (Primary, Secondary, Tertiary)
Loan Data	Syndicated Loan (multibanked / multilateral)
Loan Data	Please Input Deal Name Share in Syndication
Loan Data	Pool Leader
Loan Data	Other Syndication Members by Name
Loan Data	In Foreclosure
Loan Data	Sequestration
Loan Data	Stage of Workout Process
Loan Data	Failed Auctions
Loan Data	Date of last Auction
Loan Data	Date of next scheduled Auction

Information Type	Key Data Field
Basic Property Details	Property Running Number
Basic Property Details	Group ID
Basic Property Details	Borrower ID
Basic Property Details	Property ID
Basic Property Details	Property Street
Basic Property Details	Property Street Number
Basic Property Details	Property Postcode
Basic Property Details	Property Town
Basic Property Details	Property Province
Basic Property Details	Property Region
Basic Property Details	Property Type
Basic Property Details	Detailed Property Type
Basic Property Details	Site Area (sq.m)
Basic Property Details	Total Lettable Area (sq.m)
Basic Property Details	Year Built
Basic Property Details	Year Renovated
Basic Property Details	Total Property Vacancy %
Basic Property Details	Residential Current Vacancy %

Basic Property Details	Commercial Current Vacancy %
Basic Property Details	Car Parking Current Vacancy %
Property Enforcement Data	In Foreclosure
Property Enforcement Data	Sequestration
Property Enforcement Data	Stage of Workout Process
Property Enforcement Data	Failed Auctions
Property Enforcement Data	Date of last Auction
Property Enforcement Data	Date of next scheduled Auction
Property Valuation	Latest Appraised Market Value
Property Valuation	Date of last Valuation (Market Value)
Property Valuation	Name of Valuer
Property Valuation	Valuation Method
Property Valuation	Latest Internal Valuation
Property Commercial Data	Number of Units
Property Commercial Data	Current Net Rent p.a.
Property Commercial Data	Total Expenses p.a.

Consumer / Personal Borrower Key Data Fields: Unsecured

Information Type	Key Data Field
Borrower Data	Borrower Running No.
Borrower Data	Portfolio
Borrower Data	Group ID
Borrower Data	Borrower ID
Borrower Data	Borrower Name
Borrower Data	Borrower Street Address
Borrower Data	Borrower Street Number
Borrower Data	Borrower Postcode
Borrower Data	Borrower P.O. Box Number
Borrower Data	Borrower City
Borrower Data	Borrower Province
Borrower Data	Complementary info on borrower address
Borrower Data	Fixed / Mobile Phone
Borrower Data	Phone Number
Borrower Data	Extension Phone Number
Borrower Data	Address Classification (Home / Business)
Borrower Data	Borrower Birth Date
Borrower Data	Borrower Age
Borrower Data	Borrower Gender
Borrower Data	Borrower Marital Status
Borrower Data	Borrower Industry / Profession
Borrower Data	Borrower Income p.a.
Borrower Data	Borrower Type
Borrower Data	Borrower Est. Income
Borrower Data	Solvency Status
Borrower Data	Solvency Status Date
Borrower Data	Bank internal risk classification
Borrower Data	Borrower Co-operative (Y/N)
Borrower Data	Borrower Legal Form (sole trader / partnership etc)
Borrower Data	Previous 12 Months Actual Collections
Borrower Data	First Unpaid Date
Borrower Data	Last Payment Date
Borrower Data	Future gross collections expected
Borrower Data	% recovered during collection process

Information Type	Key Data Field
Loan Data	Loan ID
Loan Data	Loan Type (Claim Type)
Loan Data	Loan Classification
Loan Data	Loan Purpose
Loan Data	Name of Originating Bank
Loan Data	Loan Currency
Loan Data	Original Loan Amount
Loan Data	Original Loan Date
Loan Data	Outstanding Loan Amount
Loan Data	Last payment date
Loan Data	Cash balance for the borrower
Loan Data	Loan Cancelled / Terminated?
Loan Data	Termination/ Cancellation Date?
Loan Data	Original Legal Claim
Loan Data	Origination Date
Loan Data	Interest Arrears
Loan Data	Cost Arrears
Loan Data	Principal Arrears
Loan Data	Current Total Legal Claim
Loan Data	Write-down Date
Loan Data	Latest Legal Action Step
Loan Data	Latest Legal Action Date
Loan Data	Last Date of Contact with Borrower
Loan Data	Date of Default
Loan Data	Days of Default
Loan Data	Settlement Offer From/To Borrower Y/N
Loan Data	Settlement Offer Date
Loan Data	Rescheduling Agreeemnt in Place Y/N
Loan Data	Workout Status (Primary, Secondary, Tertiary)
Loan Data	Debt included in credit / solvency database

Information Type	Key Data Field
Security Details	If Guarantee, the Solvency Status of the Guarantor
Security Details	Legal Form of the Guarantor
Security Details	Name of the Guarantor
Security Details	If Guarantee, the City of the Guarantor

Appendix 2

Valuation Methodology

Filter values

The methodology assigns a filter value of zero if any of the following have an affirmative answer.

Filter values
For financial assets
Is the borrower known to have defaulted before?
Was the first interest payment missed?
Has the bank taken action against any loan officers associated with the loan?
Is the quality of the loan application significantly different from other loan applications in the portfolio?
Did the financial analysis of the borrower significantly change when a different loan officer was assigned to monitor the loan?
Has the borrower refused to repay the loan (indicating that the costs of recovering the loan will be high due to court costs)?
For collateral
Is the documentation complete to allow for collateral to be collected?
Is there any reason preventing the transfer of rights over the collateral from the lender to the portfolio buyer?
For both collateral and loan
Is the time between the end of the loan agreement and the current time > 3 years, with no legal proceedings started?

Individual factors

For retail portfolios, individual factors (after filtering) are generally applied at the portfolio level.

Type of Loan	Factor(%)
Mortgage	70-75
Consumer (point of sale)	1-5
Auto-mobile (new, foreign-made)	20-40
Auto-mobile (other)	1-5

Appendix 3

Accounting aspects of loan claim rights as assets of mutual funds

Operation	Debit	Credit	Amount
1. Acquisition of rights claims:			
1.1. Payments for sold loan	Receivables	Cash and cash equivalents	Cost under agreements
1.2. Transfer of right claims	Long-term receivables/ Receivables	Receivables	
2. Revaluation of receivables acquired under loan agreement:	Other non-operating expenses	Long-term receivables/ Receivables	Loss on revaluation
	Long-term receivables/ Receivables	Other non-operating gain	Gain on revaluation
3. Repayment of acquired receivables by debtor:	Cash and cash equivalents	Long-term receivables/ Receivables	Repaid amount
	Cash and cash equivalents	Other non-operating gain	
4. Write-off of bad receivables acquired under loan agreements:	Other non-operating expenses	Long-term receivables/ Receivables	Carrying amount
5. Sale of right claims:			
5.1. Transfer of rights claims	Receivables	Long-term receivables/ Receivables	Amount under agreements
5.2. Collection of money for transferred debt	Cash and cash equivalents	Receivables	
5.3. Loss on sale (carrying value > collected amount)	Other non-operating expenses	Long-term receivables/ Receivables	
5.4. Gain on sale (collected amount > carrying value)	Receivables	Other non-operating gain	

In partnership with the Development Bank of Austria



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